STATE OF INDIANA

INDIANA UTILITY REGULATORY COMMISSION

PETITION OF NORTHERN INDIANA PUBLIC SERVICE COMPANY ("NIPSCO") FOR (1) AUTHORITY TO MODIFY ITS RATES AND CHARGES FOR ELECTRIC UTILITY SERVICE; (2) APPROVAL OF NEW SCHEDULES OF RATES AND CHARGES APPLICABLE THERETO; (3) APPROVAL OF REVISED DEPRECIATION ACCRUAL RATES; (4) INCLUSION IN ITS BASIC RATES AND CHARGES OF THE COSTS ASSOCIATED WITH CERTAIN PREVIOUSLY APPROVED QUALIFIED POLLUTION CONTROL PROPERTY PROJECTS; (5) AUTHORITY TO IMPLEMENT A RATE ADJUSTMENT MECHANISM PURSUANT TO IND. CODE § 8-1-2-42(a) TO (A) TIMELY RECOVER CHARGES AND CREDITS FROM REGIONAL TRANSMISSION ORGANIZATIONS AND NIPSCO'S TRANSMISSION REVENUE REQUIREMENTS; (B) TIMELY RECOVER NIPSCO'S PURCHASED POWER COSTS; AND (C) ALLOCATE NIPSCO'S OFF SYSTEM SALES REVENUES; (6) APPROVAL OF VARIOUS CHANGES TO NIPSCO'S ELECTRIC SERVICE TARIFF INCLUDING WITH RESPECT TO THE GENERAL RULES AND REGULATIONS, THE ENVIRONMENTAL COST RECOVERY MECHANISM AND THE ENVIRONMENTAL EXPENSE MECHANISM; (7) APPROVAL OF THE CLASSIFICATION OF NIPSCO'S FACILITIES AS TRANSMISSION OR DISTRIBUTION IN ACCORDANCE WITH THE FEDERAL ENERGY REGULATORY COMMISSION'S SEVEN-FACTOR TEST; AND (8) APPROVAL OF AN ALTERNATIVE REGULATORY PLAN PURSUANT TO IND. CODE § 8-1-2.5-1 *ET SEQ.* TO THE EXTENT SUCH RELIEF IS NECESSARY TO EFFECT THE RATEMAKING MECHANISMS PROPOSED BY NIPSCO.	CAUSE NO. 43526 FILED AUG 29 2008 INDIANA UTILITY REGULATORY COMMISSION

Prepared Direct Testimony and Exhibits

of

NORTHERN INDIANA PUBLIC SERVICE COMPANY

Volume 1 of 6

Robert D. Skaggs, Eileen O'Neill Odum, Linda E. Miller, Mitchell E. Hershberger

August 29, 2008

NIPSCO ELECTRIC RATE CASE – TABLE OF CONTENTS

Petitioner's Exhibit RCS-1

NORTHERN INDIANA PUBLIC SERVICE COMPANY

IURC CAUSE NO. 43526

VERIFIED DIRECT TESTIMONY

OF

ROBERT C. SKAGGS, JR

PRESIDENT AND CHIEF EXECUTIVE OFFICER
NISOURCE INC.

VERIFIED DIRECT TESTIMONY OF ROBERT C. SKAGGS, JR.

Q1. Please state your name and business address.

A1. My name is Robert C. Skaggs, Jr. and my business address is 801 E. 86th Avenue, Merrillville, Indiana 46410.

Q2. By whom are you employed and in what capacity?

A2. I am President and Chief Executive Officer of NiSource Inc. ("NiSource"), the corporate parent of Northern Indiana Public Service Company ("NIPSCO"), the Petitioner in this proceeding. I have held those positions since July 2005.

Q3. What are your responsibilities as President and CEO of NiSource?

A3. I am responsible for the strategic direction of NiSource as well as for overseeing its day-to-day operations.

Q4. Please summarize your educational background.

A4. I hold a bachelor's degree in economics from Davidson College, a law degree from West Virginia University and a master's degree in business administration from Tulane University.

Q5. Please briefly describe your professional experience.

A5. Prior to being named President and CEO, I was Executive Vice President, Regulated Revenue for NiSource, where I was responsible for developing regulatory strategies and leading external relations across all of the corporation's 10 energy distribution markets as well as its extensive interstate pipeline system.

In that role, I led regulated commercial activities including large customer and marketer relations and energy supply services, as well as federal governmental relations.

I joined the law department of Columbia Gas Transmission in 1981 and then served in various management positions until I became President of Columbia Gas of Ohio and Columbia Gas of Kentucky in 1996. Effective with the November 2000 merger of NiSource and Columbia Energy Group, I was also named President of Bay State Gas and Northern Utilities. Then, in December 2001, I added responsibility of President and CEO of the Columbia companies in Pennsylvania, Virginia and Maryland.

I am a member of the American Gas Association's board of directors and executive committee, and have also served on the board of directors of the Southeastern Gas Association. Additionally, I am a member of the Midwest Energy Association, American Bar Association, Energy Bar Association and West Virginia Bar Association. I also serve in a variety of capacities with a number of charitable organizations, including the NiSource Charitable Foundation.

Q6. What is the purpose of your testimony in this proceeding.

A6. The purpose of my testimony is to provide the Commission with an overview of NiSource and its corporate structure, and to explain the NiSource strategic direction in light of the challenges facing all segments of the energy business. I will also emphasize NIPSCO's commitment to take the fundamental steps necessary to make it a premier electric utility. Finally, my testimony addresses the importance to NIPSCO of the maintenance and improvement of the credit rating of NiSource and the benefits to all stakeholders that will flow from such an improvement.

Q7. Please describe the corporate structure within NiSource?

A7. NiSource is a Fortune 500 company headquartered in Merrillville, Indiana. NiSource is organized in three business units: Northern Indiana Energy (which includes NIPSCO, Northern Indiana Fuel & Light, and Kokomo Gas and Fuel), Gas Distribution, and Gas Transmission and Storage. The NiSource operating companies are engaged in natural gas transmission, storage and distribution, as well as electric generation, transmission and distribution service. NiSource companies deliver energy to almost 4 million customers located from the Gulf Coast through the Midwest to New England. NiSource company subsidiaries, in addition to NIPSCO, include Bay State Gas, Columbia Gas of Kentucky, Columbia Gas of Maryland, Columbia Gas of Ohio, Columbia Gas of Pennsylvania, Columbia Gas of Virginia, Columbia Gas Transmission, Columbia Gulf Transmission, NiSource Retail Services, Crossroads Pipeline, Energy USA-TPC, Kokomo Gas and Fuel Company, Northern Indiana Fuel and Light Company, NiSource Energy Technologies, NiSource Corporate Services Company, and Northern Utilities. NiSource and its operating companies employ almost 8,000 employees. More than 3,000 of those jobs are located in the State of Indiana.

I. THE NISOURCE STRATEGIC PLAN

Q8. Please explain the NiSource strategic plan.

A8. Upon assuming my current responsibilities with NiSource, one of my initial priorities was to conduct a comprehensive, no-holds barred corporation-wide strategic review in an effort to identify corporate strengths and weaknesses, and to define the future strategic direction of the Company. The key findings from that review were that NiSource's core strengths and most promising long-term growth prospects were driven by its regulated infrastructure assets and from opportunities that flow from those regulated assets and businesses. Another of the key findings of that assessment was that the ability to capitalize on these core strengths would require a long-term, investment-driven plan to modernize those core assets and core processes, and raise the services they support to a level consistent with that provided by America's premier utilities.

From a high level, the investment required to execute this "Path Forward" initiative entails not only a substantial investment in infrastructure replacement and expansion to provide a strong operational basis to support core operations and for growth, but also a significant investment in our processes and our employees to ensure an engaged and motivated workforce. In addition and just as important, NiSource is committed to investing in our relationships with all of our stakeholders and to bringing our corporate vision into alignment with the needs and expectations of our customers and regulators.

NiSource recognizes that to transition its core businesses to a model that provides long-term benefits for customers in the form of outstanding reliability and service quality, and to its shareholders in the form of sustainable earnings growth, it is necessary to commit to a balanced and consistent investment in all of these areas over the long haul, not as a short-term, stopgap measure. NiSource and NIPSCO have undertaken the first steps needed to execute the long-term strategic plan, but also recognize that there is more work to be done.

Q9. How significant is the infrastructure investment and what is driving it?

A9. The investment in infrastructure required is enormous -- in the order of $1 Billion per year across NiSource. Much of the infrastructure operated by the NiSource operating companies has literally been in service for many decades, and significant ongoing investment is required to maintain the systems in order to meet long-term customer needs. Many of those assets are also at the limits of their operational capacity and thereby place strain on the reliability of the service currently provided and the ability to effectively grow business to serve new customers. In the case of NIPSCO's generating assets, NIPSCO has gone from a position of capacity-long at the time of its last rate case to capacity-short today.

NIPSCO has already made a significant investment in acquiring the Sugar Creek Generating Station (the "Sugar Creek Facility"), but additional capacity is needed to meet current and future demand. Equally important, additional investment in maintenance of all of our utility assets is necessary and appropriate to enhance the reliability of the services we provide. For NIPSCO's electric service, this includes significant increases in vegetation management, additional investments in our generating stations, and implementation of a contemporary work management system to optimize maintenance and repair efficiency and service. In addition, capital expenditures for environmental compliance will continue to be required. Investment in NIPSCO's electric distribution system will continue to increase as a result of: (1) new infrastructure growth to serve new customers; (2) public improvements; (3) capacity enhancements; and (4) infrastructure replacements. Targeted transmission investment by the Company individually and through its participation in the Midwest Independent Transmission System Operator, Inc. will continue.

Q10. Why are investments in workforce part of the NiSource strategic plan?

A10. As with many other industries, the demographics of the "Baby Boomer" era are an issue for the utility business. Many of the most experienced and valued NiSource employees are reaching retirement age over the course of the next few years. In an effort to manage the impact on our companies and address the loss of experience, NiSource has initiated a forward-looking process of hiring and training employees to ensure effective operational continuity. In addition to investments in additional workers, NiSource believes it is critical to provide competitive compensation to attract and retain quality employees, and then to provide those employees with the tools to deliver premier service to its customers. Together with the investment in infrastructure, our investment in our workforce is a critical component of our commitment to become a premier energy delivery company.

Q11. You discussed the need to invest in stakeholder relationships. What do you mean by that?

A11. The success of the NiSource strategic plan is dependent upon the ability of its operating companies to provide high quality service to customers in synch with timely and appropriate regulatory treatment. Open communication with all of our stakeholders, including large and small customers, regulators and employees is an essential element in our ability to achieve that objective. Investing in relationships means making the consistent effort necessary to earn the respect and trust of our stakeholders as a reliable and transparent partner. NiSource recognizes that agreement with all of our stakeholders on every issue is unrealistic, but we are committed to: (1) make the investment in stakeholder relationships necessary to ensure that disagreements are based on differences of opinion not on distrust; and (2) work toward a level of communication and cooperation that fosters opportunities for constructive, collaborative resolution of issues rather than litigation.

Q12. How does the NiSource strategic plan apply to NIPSCO's electric service?

A12. Execution of the strategic plan for NIPSCO's electric service has already begun. The most obvious example is the approximately $330 Million investment in the Sugar Creek Facility. That investment represents a significant step toward the modernization of the NIPSCO generating fleet and toward improved system reliability. That investment was significant, but is only part of the fundamental steps necessary to implement the strategic plan.

Q13. What are the fundamental steps?

A13. The fundamental steps are the critical pathways driving NIPSCO toward electric service on par with the leaders in the industry. They include:

- Continued investment to ensure overall system reliability,
- Continued investment in generating capacity,
- The addition of certain key leadership and other positions, and
- Resolution of legacy issues.

Improvements in system reliability will be driven by increased investment in the maintenance of the Company's generation assets, vegetation management, improved and optimized maintenance procedures, and the introduction of improved work management tools. Even with the acquisition of the Sugar Creek Facility, additional generating resources are needed to improve system reliability and provide appropriate reserves. And we are committed to making the investments necessary to address that need.

In addition to assets and systems, as noted earlier, NIPSCO also needs to add certain new critical positions to ensure it has the skills and resources required to execute its ambitious business plans.

Q14. What are "legacy issues"?

A14. I would characterize them as unresolved issues that developed during periods prior to the implementation of the strategic plan. They include bringing closure to pending regulatory proceedings, making needed infrastructure investments and thoughtfully rebuilding the relationship with the Company's stakeholders to build a foundation for future cooperation and success.

Q15. How do other challenges facing the energy industry impact NIPSCO's approach in this proceeding?

A15. It is clear that energy prices have re-emerged as a high profile issue in the public's consciousness by virtue of the recent dramatic escalation in oil, coal and natural gas prices. An enormous challenge for the electric industry is the management of rates to customers in the face of increases in fuel prices, escalating environmental compliance costs, and the need to invest in workforce and employee training. We are very mindful that many of our customers are already faced with economic challenges, so modulation of the rate impact of the investments necessary to ensure top quality reliable service is important.

As NIPSCO President Eileen O'Neill Odum explains in her testimony, the structure of NIPSCO's electric rates has not been revisited since the 1980s. The entire electric industry has been rearranged since that time with the advent of open access and regional transmission organizations. When those changes are combined with the evolution of NIPSCO's customer base over that time, the cost structure underlying NIPSCO's electric rates has also changed. NIPSCO's approach to its rates in this proceeding has been tempered by recognition that gradual rebalancing of its rate structure will be necessary to avoid "rate shock" to any single class of customers.

II. <u>ACCESS TO CAPITAL MARKETS</u>

Q16. Please explain the importance to NIPSCO of NiSource maintaining or improving its investment grade credit rating.

A16. Access to capital on reasonable terms is the lifeblood of any capital intensive business. However, such access is particularly critical for NIPSCO at this point in its history because of the ongoing need for capital to fund investments in service quality and reliability. The NiSource corporate credit rating is currently BBB- from Standard and Poor's Corporation, and the Long Term issuer rating is Baa2 from Moody's Investors Service. These ratings are well below those of other Indiana utilities and at the lowest end of investment grade.

It is axiomatic that with a higher corporate credit rating, more favorable terms are available when additional capital is required from lenders. More favorable credit terms provide NIPSCO with the opportunity to mitigate the impact on its retail customers from the major investments needed to optimize service quality in line with the NiSource strategic plan. Therefore, it is extremely important to NIPSCO and its customers that, at a minimum, the NiSource corporate credit rating be maintained and ultimately improved.

Q17. Does the regulatory process impact the NiSource corporate credit rating?

A17. Yes, it does. The credit rating agencies closely follow and assess regulatory proceedings and their impact on a company's financial condition. Clearly, the extent to which the NiSource operating companies, including NIPSCO, consistently receive timely and reasonable regulatory treatment, the more positive is the perception of NiSource in the marketplace for capital. This relationship is particularly important now as NiSource is investing a significant amount of capital in its core regulated businesses, including NIPSCO. Second, to the extent that specific regulatory outcomes drive improvements in the NiSource balance sheet and overall financial performance, the likelihood for stabilization or improvement in the corporate credit rating is enhanced.

Q18. Does this conclude your prepared direct testimony?

A18. Yes, it does.

VERIFICATION

I, Robert C. Skaggs, Jr., President and Chief Executive Officer of NiSource Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Robert C. Skaggs, Jr.

Robert C. Skaggs, Jr.

Date: August 29, 2008

Petitioner's Exhibit EOO-1

NORTHERN INDIANA PUBLIC SERVICE COMPANY

IURC CAUSE NO. 43526

VERIFIED DIRECT TESTIMONY

OF

EILEEN O'NEILL ODUM

PRESIDENT

SPONSORING PETITIONER'S EXHIBITS EOO-2 AND EOO-3

VERIFIED DIRECT TESTIMONY OF EILEEN O'NEILL ODUM

Q1. Please state your name and business address.

A1. My name is Eileen O'Neill Odum, and my business address is 801 East 86th Avenue, Merrillville, Indiana 46410.

Q2. By whom are you employed and in what capacity?

A2. I am employed by NiSource Inc. as Executive Vice President and Group Chief Executive Officer for NiSource's Indiana Business Segment, which includes Northern Indiana Public Service Company ("NIPSCO" or the "Company"), Northern Indiana Fuel & Light Company, and Kokomo Gas and Fuel Company. In that capacity, I also serve as President of NIPSCO, Petitioner in this proceeding.

Q3. What are your professional responsibilities as President of NIPSCO?

A3. My role is one of three senior executive positions within NiSource with profit and loss responsibility for its major business units. As President of NIPSCO, I am ultimately responsible for all aspects of its business operations.

Q4. Please briefly describe your professional experience.

A4. I began my utility career at GTE Corp. in 1978. Over the course of the next 22 years, I earned positions of increasing responsibility in finance, regulatory, strategic planning, marketing and sales, and operations. In 2000, when GTE merged with Bell Atlantic to form Verizon, I moved to New York as part of the founding executive team for that new company's wireline business as President-

National Operations. In 2004, I joined Commonwealth Telephone Enterprises in Dallas, Pennsylvania as Chief Operating Officer and led all of its business units until its sale in 2007.

I am a member of the Board of Directors of the Edison Electric Institute and of the Indiana Energy Association.

Q5. Please describe your educational background.

A5. I earned a B.A. in Business Administration and Finance, with honors, from the University of Washington.

Q6. What is the purpose of your direct testimony in this proceeding?

A6. The purpose of my direct testimony in this proceeding is to describe NIPSCO's mission and focus, to provide an overview of its electric utility system and operations, to explain challenges faced by NIPSCO that have been addressed in the proposals made in this proceeding, and to briefly summarize the relief requested by NIPSCO in its case-in-chief. I also discuss changes to the organizational structure implemented within NIPSCO, including the resulting increase in staffing levels. I discuss the decision to retire NIPSCO's D.H. Mitchell Generating Station ("Mitchell") and Units 2 and 3 of NIPSCO's Michigan City Generating Station ("Michigan City").

I. NIPSCO'S MISSION AND FOCUS

Q7. What is NIPSCO's mission and focus?

A7. NIPSCO's mission is to provide its customers with safe and reliable gas and electric service at just and reasonable rates. The Company is committed to building on its tradition of service to strengthen all aspects of future service performance. NIPSCO is focused on increasing the reliability of its electric service by investing in its generation portfolio both by acquiring new assets and through the Company's maintenance plan to ensure reliable and cost effective service into the future. NIPSCO also maintains a strong focus on all its stakeholders, including its customers, employees, communities and regulators. NIPSCO seeks to continually improve customer satisfaction, build employee engagement and respond to the needs of those whom we serve. As part of the Company's plan to achieve these goals, NIPSCO is committed to transparency and active communication with all of our stakeholders.

Q8. What steps has NIPSCO recently taken in furtherance of its mission and focus?

A8. NIPSCO has recently taken a number of important steps in support of its core mission. The acquisition of the Sugar Creek Generating Station in West Terre Haute, Indiana ("Sugar Creek Facility"), a gas-fired combined cycle combustion turbine generating facility, was a significant step forward in solidifying NIPSCO's generation capacity position and modernizing its generating fleet. Additionally, in support of our mission of reliable and cost effective service, NIPSCO has decided to retire Mitchell and Michigan City Units 2 and 3, its oldest coal-fired and retrofitted gas-fired generating facilities. NIPSCO Witness Bradley K. Sweet further discusses the retirement of these facilities.

Also, in support of our mission to provide safe and reliable transmission and distribution of electricity, we have stepped up our forestry spend. Steps have also been taken to increase the security of our key substation assets through investments in fencing and other deterrent and monitoring equipment. Regarding our focus on continuous improvement in customer service, we have a high quality customer contact center in Merrillville which is staffed around the clock to care for our customers. Our professional associates are trained in customer service and technical skills and we have upgraded our systems infrastructure to provide each of our customers with professional, high quality and efficient support.

As mentioned above, we have recently reorganized our company into a Northern Indiana business unit. This configuration provides for clear accountability for all aspects of our business performance and reinforces our focus on our NIPSCO customer segments. Related to this new organization, I have authorized the establishment of 83 positions intended to further NIPSCO's focus on customer satisfaction, system reliability and regulatory transparency. These staffing additions include senior level positions in Customer Engagement and Communications, new management positions in Service Delivery, and positions needed to meet new Federal Energy Regulatory Commission ("FERC") and North

American Electric Reliability Corporation ("NERC") compliance requirements. NIPSCO has also created a new department focused on resource planning, development and strategy. The new positions also include an increase in staffing for the Rates department. One key component of these staffing increases is responsibility for the electric demand side management ("DSM") programs being developed by the Company. NIPSCO is also committed to strengthening its regulatory engagement through an increase to staff in the Company's Indianapolis office, including the Vice President of Regulatory and Legislative Affairs and his staff.

NIPSCO also has developed plans to deal with its aging workforce, a significant issue facing NIPSCO as increasing numbers of its skilled employees reach retirement age in the next few years. As discussed in greater detail by NIPSCO Witnesses Timothy A. Dehring and Robert D. Campbell, NIPSCO has experienced an increase in the average age of its workforce. As a result, the Company has developed a detailed plan to ensure that the necessary actions will be taken to hire and train replacements for key positions such that the safety and quality of service is maintained to our customers on a cost effective basis. NIPSCO has accelerated its hiring in order to proactively address this situation. The Company anticipates the need to continue hiring at increased levels into the future due to our demographic profile.

II. NIPSCO'S ELECTRIC SYSTEM AND OPERATIONS

Q9. Please provide an overview of NIPSCO's electric system.

A9. NIPSCO's electric system delivers service to approximately 457,000 customers in twenty counties in the northern part of Indiana. Our customers consumed more than 17,800 Gigawatt hours of electricity during the 2007 test year. Table 1 below summarizes NIPSCO's customers by class:

Table 1 - 2007 NIPSCO Customer Data.

12/31/2007	Customers	Test Year Sales (GWH)
Residential	400,991	3,543.6
Commercial	52,815	3,775.0
Industrial	2,509	9,443.7
Wholesale	6	909.1
Other	755	141.7
TOTAL	457,076	17,813.1

Table 1 illustrates the fact that, while industrial customers make up less than one percent of the total NIPSCO electric customers, they consumed more than 53 percent of the electricity sold during the test year.

To serve our total customer load, NIPSCO owns and operates a portfolio of generating assets. Those assets that are currently dispatched by the Midwest Independent Transmission System Owners, Inc. ("Midwest ISO") have a combined capacity of 2,787 megawatts ("MW"). That portfolio includes three coal-fired generating stations with a combined capacity of 2,574 MW, four gas-fired units with a total net capability of 203 MW, and two hydroelectric generating plants with a combined capacity of 10 MW. The Sugar Creek Facility provides an additional 535 MW of generating capacity, increasing our total capacity to 3,322 MW. NIPSCO Witness Philip W. Pack provides more detail about NIPSCO's generation fleet.

Functional control of NIPSCO's transmission facilities lies with the Midwest ISO, a regional transmission organization ("RTO") operated under the authority of the FERC, which controls the use of NIPSCO's transmission system on a non-discriminatory open access basis and dispatches NIPSCO's generating units along with all others located within the Midwest ISO's footprint on a security-constrained economic dispatch basis. NIPSCO also engages in power purchase transactions, including through the energy markets operated by the Midwest ISO, as required to meet the demands of its customers. Mr. Sweet discusses NIPSCO's participation in the Midwest ISO.

NIPSCO's transmission system consists of 2,778 circuit miles of line ranging in voltage from 69,000 to 345,000 volts. In addition to providing for the transmission of electricity within the NIPSCO system, many of NIPSCO's largest industrial customers are served directly at transmission voltage from these lines. Mr. Dehring addresses a variety of information associated with NIPSCO's transmission and distribution facilities.

Q10. What are NIPSCO's plans for the facilities located at Mitchell Station as well as the Michigan City Units 2 and 3?

A10. As discussed by Mr. Pack and Mr. Sweet, NIPSCO intends to demolish Mitchell and remediate the site to industrial condition. There has been some discussion with third parties regarding their desire to make use of the Mitchell site for other purposes, but no decisions have been reached in that regard. Michigan City Units 2 and 3 will be retired and the equipment removed. However, the remainder of the Michigan City facility will continue to be used by NIPSCO for generation and transmission.

Q11. What steps has NIPSCO taken to manage the escalation of operation and maintenance expenses?

A11. NIPSCO aggressively manages its costs of providing electric service to its customers. There are certain types of costs over which we have little to no control, such as costs driven by changes in environmental compliance requirements and the generally escalating prices of materials, equipment and contract labor. NIPSCO manages cost escalation through a rigorous budgeting process coupled with the use of competitive procurement practices. By seeking competitive bids for equipment and services, NIPSCO reduces its cost escalation by ensuring we do business with the most cost effective vendors that are available.

Q12. What steps has NIPSCO taken to manage the escalation of labor-related costs?

A12. Because of our fundamental commitment to the delivery of safe and reliable electric utility service, NIPSCO focuses on hiring and retaining highly capable and qualified individuals throughout our company. As discussed by Mr. Campbell, NIPSCO offers a package of compensation and benefits that are competitive within the electric utility industry to accomplish that goal. That said, the NiSource family of companies generally, and its Indiana operating companies specifically, take advantage of cost synergies available when individuals can perform similar work on behalf of multiple NiSource companies. The expenses for individuals providing shared services are allocated accordingly. NIPSCO is also investing in new system capability via its work management initiative to more effectively dispatch work to its distribution and transmission workforce.

III. <u>CHALLENGES FACING NIPSCO</u>

Q13. Please describe key challenges facing the electric utility industry generally.

A13. The electric utility industry overall is faced with a number of challenges. Planning for uncertain future changes in environmental regulation (principally carbon emissions) presents a very significant challenge for most electric utilities, and is all the more important for a utility like NIPSCO that is heavily reliant upon coal as a fuel source. Escalating fuel and transportation costs pose a severe challenge to the ability of an electric utility to provide service at prices that recover its costs yet remain reasonable for customers. Additionally, as discussed above, the electric industry, along with other utilities and non-utility industries, is challenged by the transition of many of its most experienced employees out of the workforce as demographics-driven retirements take place.

Q14. Please describe challenges faced by NIPSCO specifically.

A14. In addition to the challenges confronting the electric industry as a whole, NIPSCO is faced with specific challenges due to its characteristics and service territory. Since the close of the 1985 test year in our last general rate increase proceeding (Cause No. 38045), the electric industry has undergone a transformation from an interconnected network of individual utility systems to an independently managed grid intended to support long-haul power transactions, market-based pricing and the economic dispatch of generating units. NIPSCO needs to adopt rate mechanisms that can deal effectively with this new environment. Replacement of aging generation plants with additional capacity and diversifying its fuel sources are also important issues for NIPSCO today.

In addition to changes in the industry at large, NIPSCO's service territory and customer mix have undergone substantial changes in the past twenty years. NIPSCO's current array of tariffed services are no longer reflective of the distinctions within our customer mix. For example, existing Rate 821 was originally designed as a rate for small commercial customers, but now serves a diverse blend of customers ranging from small convenience stores to big box stores – customers with widely divergent load and usage characteristics. Additionally, NIPSCO's largest industrial customers have long formed the economic backbone of its service territory – a fact recognized in the terms under which they have been served for many years. These customers and their industries have also undergone massive restructuring since NIPSCO's base rates were last set in the 1980s, resulting in a consolidation of the number and diversity of customers while the cost to serve them has increased. Finally, NIPSCO's residential customer base rates have remained constant for more than twenty years in spite of increasing costs. Additionally, since NIPSCO's last base rate increase, the relative cost of providing service has shifted among customer classes, resulting in the need to "rebalance" NIPSCO's rate structure.

Q15. Will the Company's proposals in this proceeding address the challenges you have described?

A15. Yes, NIPSCO's proposals represent an important platform for confronting these challenges. The Company designed its recommendations to begin to address each of these challenges in a manner that reflects the reality that a full rebalancing of its rates after more than twenty years would have dramatic and immediate impacts on certain customer classes. NIPSCO, therefore, will seek to mitigate the impact of its proposed restructuring change on individual classes of customers, while offering opportunities for customers of all sizes to manage their own usage to the economic benefit of both customers and the system as a whole.

IV. OVERVIEW OF NIPSCO'S PROPOSAL

Q16. Please summarize NIPSCO's proposed changes in base rates.

A16. NIPSCO seeks a two-step increase in rates over those approved by the Commission in its last general rate proceeding, Cause No. 38045. The increase in gross margin (revenues less fuel, purchased power and associated taxes) proposed in the first step is $23,983,452. The first step captures operational expenses as of the close of the calendar year 2007 test year, as adjusted for fixed, known and measurable changes. The proposed second step accounts for the addition of the Sugar Creek Facility to NIPSCO's rate base upon its dispatch into the Midwest ISO. The second step will enable NIPSCO to recover capital costs and the operating expenses relating to the Sugar Creek. The proposed second step will increase revenues by an additional $80,723,642.

Q17. Please identify the witnesses presenting direct testimony for the Company.

A17. NIPSCO's case-in-chief consists of testimony and exhibits from 22 witnesses. Table 2 below identifies each witness and the major topics addressed in his or her testimony.

Table 2 - Table of Witnesses.

Witness	Major Topics
Robert C. Skaggs, Jr. President and CEO NiSource Inc.	Overview of NiSource and its corporate structure NiSource Strategic Plan Access to capital markets

Witness	Major Topics
Eileen O'Neill Odum President NIPSCO	NIPSCO's mission and focus Overview of electric utility systems and operations Challenges faced by NIPSCO Relief sought by NIPSCO Publication of Legal Notice and provision of Customer Notices
Linda E. Miller Executive Director, Rates and Regulatory Finance NiSource Corporate Services	NIPSCO's required rate relief NIPSCO's adjusted rate base NIPSCO's adjusted net electric operating income NIPSCO's proposed tracking mechanisms NIPSCO regulatory capital structure and cost of capital
Mitchell E. Hershberger Controller NIPSCO	NIPSCO's accounting processes, including audits and controls NIPSCO's per book financial statements Allocation of common costs Relationship between NIPSCO and NCS Verification and review of NCS cost assignments Rate base adjustments One-time billed revenue adjustment Depreciation rate proposal
Robert D. Campbell Senior Vice President, Human Resources NiSource Corporate Services	NIPSCO and NiSource compensation and benefits NIPSCO's employee and retiree benefit programs Aging workforce issues Employee vacancies
Susanne M. Taylor Controller NiSource Corporate Services	Relationship between NCS and NIPSCO Assignment of NCS costs between NIPSCO and affiliated companies Adjustments to test year NCS allocation to NIPSCO
William J. Gresham Manager, Forecasting NiSource Corporate Services	Weather Normalization

Witness	Major Topics
John M. O'Brien Assistant Controller of Taxes NiSource Corporate Services	NIPSCO's federal and state income tax expense adjustments Adjustments for taxes other than income
Philip W. Pack Manager, Major Products & Resource Development NIPSCO	NIPSCO's generation fleet Demolition of certain generation units Generation O&M expense adjustment for contract labor Amendments to NIPSCO's environmental cost recovery mechanisms
Timothy A. Dehring Senior Vice President, Energy Delivery NiSource Corporate Services	Transmission system operations Implementation of FERC Seven-Factor Test Distribution system operations Planned investment in work management technologies New electric safety programs Impact of employee retirements to the transmission and distribution operations segment
Frank A. Shambo Vice President, Regulatory and Legislative Affairs NiSource Corporate Services	Background of NIPSCO's existing rates Certain proforma revenue adjustments Overview of rate design principles New rate design/tariff policy Step Two rate proposal associated with the Sugar Creek Generating Facility Rationale for NIPSCO's proposed Reliability Adjustment tracking mechanism Overview of tariff simplification effort NIPSCO's future rate issues
Robert D. Greneman, P.E. Stone & Webster Management Consultants, Inc.	NIPSCO's cost of service study Development of NIPSCO's proposed rate structure Results of application of FERC Seven-Factor Test
Curt A. Westerhausen Manager, Rates and Contracts NiSource Corporate Services	Tariff revisions, including the Company's comprehensive review and modification of tariff

Witness	Major Topics
John J. Spanos Vice President, Valuation and Rate Division Gannett Fleming, Inc.	Proposed depreciation accrual rates
Vincent V. Rea Director, Treasury Corporate Finance NiSource Corporate Services	NIPSCO's debt financing activities NIPSCO's credit ratings NIPSCO's cost of debt
Paul Moul Managing Consultant P. Moul & Associates	Rate of return on common equity Fair value rate base
John P. Kelly Executive Advisor Concentric Energy Advisors	Fair value of NIPSCO assets Reproduction Cost New Less Depreciation Study
John J. Reed Chairman and CEO Concentric Energy Advisors	Fair value of NIPSCO generation assets DCF valuation of generation assets
Victor Ranalletta Manager - Energy Burns & McDonnell Engineering Co.	Cost of demolition and remediation of certain NIPSCO generation facilities
Bradley K. Sweet Vice President - Strategic Planning and Operations Support NIPSCO	Transmission system Midwest ISO's resource adequacy plan Generation facilities Capacity solutions Transmission planning
Curtis L. Crum Director, Generation Dispatch and Energy Management	Deferred Midwest ISO costs Reliability Adjustment tracking mechanism
Kelly R. Carmichael Director, Environmental Permitting and Regulatory Services NiSource Corporate Services	Current and emerging environmental regulations impacting NIPSCO's compliance activities NIPSCO generation fleet environmental compliance program

Q18. Does NIPSCO anticipate taking additional steps outside of this proceeding to address its rate structure?

A18. Yes. NIPSCO is developing a range of programs intended to promote the efficient use of energy, including programs targeting DSM.

Q19. Why is NIPSCO planning to address those programs in a different proceeding?

A19. NIPSCO plans to address its energy efficiency initiatives outside of this general rate proceeding so as to put these initiatives in place on an expedited basis. The Company anticipates that the Commission will consider its DSM-related plans before the conclusion of this proceeding. The Company commits to launching these programs immediately upon their approval by the Commission.

Q20. How does NIPSCO intend to incorporate its energy efficiency proposals into its rates if they are not part of this general rate proceeding?

A20. As discussed in Mr. Shambo's testimony, NIPSCO recommends that costs and benefits associated with its energy efficiency programs be managed through a DSM tracking mechanism similar to that approved by the Commission for other Indiana electric utilities.

V. <u>NOTICES</u>

Q21. Has NIPSCO published notice of the filing of this case in each County where it provides electric service?

A21. Yes. Attached to my testimony as Petitioner's Exhibit EOO-2 are copies of the notices of the filing of the petition in this proceeding published in newspapers in each county in which NIPSCO provides electric service, along with the Publishers' Affidavits confirming the publications.

Q22. Will NIPSCO provide its residential customers with written notice of the proposed changes in basic rates?

A22. Yes. After the filing of the petition in this proceeding, NIPSCO included on its residential bills a notice that the petition had been filed and the customers would be provided a summary of the nature and extent of the proposed changes to basic rates after the proposed rate changes were finalized. After the filing of NIPSCO's case-in-chief, NIPSCO will provide a written notice in the form of Petitioner's Exhibit EOO-3 summarizing the impact of the proposed changes in basic rates on residential customers. This notice will be provided to residential customers as a bill insert within 45 of the filing of NIPSCO's case-in-chief.

Q23. Does this conclude your prepared direct testimony?

A23. Yes, it does.

VERIFICATION

I, Eileen O'Neill Odum, President of Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Eileen O'Neill Odum

Date: August 29, 2008

INDS01 DWM 1060153

Proofs of Publication

COUNTY	NEWSPAPER
Benton County	Benton Review Newspaper
Carroll County	Carroll County Comet
DeKalb County	The Evening Star
Elkhart County	Goshen News
Fulton County	Rochester Sentinel
Jasper County	Rensselaer Republican
Kosciusko County	Warsaw Times-Union
LaGrange County	LaGrange News
Lake County	Post Tribune
LaPorte County	LaPorte Herald-Argus
Marshall County	Bremen Enquirer
Newton County	Newton County Enterprise
Noble County	News-Sun
Porter County	Times
Pulaski County	Pulaski County Journal
St. Joseph County	South Bend Tribune
Starke County	Starke Co. Leader
Steuben County	Herald Republican
Warren County	Review Republican
White County	Herald Journal

Form Prescribed by State Board of Accounts

NiSource Corp. / Cause# 43526

Benton County, Indiana

General Form No. 99P(revised 1995)

To: The Benton Review
P.O. Box 527,
Fowler, IN 47944

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 2 of 22

PUBLISHER'S CLAIM

LINE COUNT

Display Matter (Must not excee two actual lines, neither of which shall total more than four solid lines of type in which the body of the advertisement is set) -- number of equivalent lines....... ______

Head—number of lines .... ______
Body—number of lines .... ______
Tail—number of lines... ______
Total number of lines in notice... ______

COMPUTATION OF CHARGES

22 lines, 2 columns wide equals, 44 equivalent lines
at .356 cents per line..$ 15.66

Additional charges for notices containing rule or tabular work
(50 percent of above amount)... —

Charge for extra proofs of publication ($1.00 for each proof in excess of two)............. —

TOTAL AMOUNT OF CLAIM...$ 15.66

DATA FOR COMPUTING COST

Width of single column: 11 picas

Number of insertions: 1

Size of type: 8 point

Pursuant to the provisions and penalties of Chapter 155, Acts 1953.

I hereby certify that the foregoing account is just and correct, that the amount claimed is legaly due, after allowing all just credits, and that no part of the same has been paid.

Date: July 18th ,2008

Title: Publisher

PUBLISHER'S AFFIDAVIT

State of Indiana
Benton County

Personally appeared before me, a notary public in and for said county and state, the undersigned, Karen Moyars who being duly sworn says that she is publisher of The Benton Review Newspaper of general circulatio printed and published in the English language in the town of Fowler in the state and county addressed. And that the printed matter attached hereto is a true copy, which was duly published in said paper: for

1 time one, the dates of publication being as follows:
7/16/08

,Publisher

Subscribed and sworn to before me this 18th day of
July 2008.

Notary Public,

My commission expires: 13 July 09

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised deprecation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO Northern Indiana Public Service Company

7/16

LEGAL NOTICE

Notice is hereby given that on June 27, 2008 Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1- 2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
NORTHERN INDIANA PUBLIC
SERVICE COMPANY
2811

State of Indiana, County of Carroll, ss:

BEFORE ME, the undersigned personally appeared SUSAN SCHOLL who, being duly sworn according to law, upon her oath declares that she is EDITOR of THE CARROLL COUNTY COMET, a newspaper of general circulation, published in the City of Delphi in said County; that the notice hereto attached was published in said newspaper for 1 time(s) on a stated day (Wednesday), the first which publication was on the 9TH day of JULY 2008 and the last on the ______ day of __________ 2008 and the said Susan Scholl further declares that fee for said publication hereunto annexed, amounting to the sum of $ 55.00, is correct, according to our current established rate.

Susan Scholl

SWORN TO and subscribed before me, this 9TH day of JULY 2008.
Witness my hand and official seal hereto affixed, at Flora, in said county.

Brenda Bonner

BRENDA BONNER - Notary Public
My Commission Expires February 22, 2012

Form Prescribed by
State Board of Accounts

To: KPC Media Group Inc.

P.O. Box 39, KENDALLVILLE, IN 46755

Tax I.D. 35-0436930
Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526

PUBLISHERS OF THE EVENING STAR

PUBLISHER'S CLAIM

COMPUTATION OF CHARGES:

44 lines, 1 column(s) wide equals 44 equivalent lines at 0.3880 cents per line,	17.07
Additional charges for notices containing rule or tabular work (50% of above amount) AND/OR extra proofs of publication ($1.00 for each proof in excess of 2) equals 0.00	0.00
Data for computing cost: Width of single column - 12 ems; Size of type - 7 points; Size of quad upon which type is cast - 8 pt.; Number of insertions -1	17.07

LINE COUNT

HEAD (number of lines)	1
BODY (number of lines)	42
TAIL (number of lines)	1
TOTAL	44

"Pursuant to the provisions and penalties of Chapter 155, Act 1953, (s)he further says that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid"

Date: 7/14/08

Kelly Wallen
LEGAL CLERK

Ad #: 00134982
NI SOURCES CORPORATE
SERVUCES

PUBLISHER'S AFFIDAVIT

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
Northern Indiana Public Service Company
ES,00134982,7/11

Noble County)
State of Indiana) SS:

Personally appeared before me. a notary public in and for said county and state, the undersigned Kelly Wallen who being duly sworn said that (s)he is of competent age and is LEGAL CLERK of KPC Media Group Inc, publisher of a daily newspaper in Kendallville, county of Noble, State of Indiana, a weekly newspaper in Ligonier, county of Noble, State of Indiana, a daily newspaper in Auburn, county of DeKalb, State of Indiana, a daily newspaper in Angola, county of Steuben, State of Indiana, a weekly newspaper in Garrett, county of DeKalb, State of Indiana, Butler a weekly newspaper in Butler, county of DeKalb, State of Indiana, and which during that time have been newspapers of general circulation, having bona fide paid circulations, printed in the English language and entered, authorized and accepted by the post office department of the United States of America as mailable matter of the second-class as defined by the Act of Congress of the United States on March 3, 1879, and that the printed matter attached is a true copy, which was duly published in said newspaper 1 times, the dates of publication being as follows : 07/11/2008

Affiant Kelly Wallen

Notary Public Mary Lou Monesmith

Subscribed and sworn before me on this 14th day of July, 2008
My commission expires May 21, 2010

NOTARY PUBLIC SEAL STATE OF INDIANA

Proof of Publication

STATE OF INDIANA,
Elkhart County, } ss:

I, being duly sworn, on oath say that THE GOSHEN NEWS is a Daily newspaper of general circulation, printed and published in the City of Goshen, in the County and State of aforesaid; that the annexed true copy was published in said newspaper 1 consecutive weeks as follows:

On the 10 day July, 2008

On the ____ day of ____, ____

On the ____ day of ____, ____

On the ____ day of ____, ____

COPY

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Ellen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC
SERVICE COMPANY

July 10

$118.47

Brenda J. Donat

Subscribed and sworn before me this 10 day of July, 2008

KRISTINE F. ERB
MY COMMISSION EXPIRES
MARCH 17, 2015
ELKHART COUNTY
NOTARY PUBLIC, STATE OF INDIANA

Kristine F. Erb
Notary Public

My commission expires March 17, 2015

Form Prescribed By State Board of Accounts

General Form No. 99P (Revised)

NiSource Corp.
(Governmental Unit)

FULTON County, Indiana

To: The Rochester Sentinel
P.O.Box 260
118 East 8th Street
Rochester, IN 4695

Publisher's Claim

Line Count

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of type in which the body of the advertisement is set) – number of equivalent lines	
Head – number of lines	1
Body – number of lines	40
Tail – number of lines	5
Total number of lines in Notice	46

Computation of Charges

46 lines, _____ columns wide equals ___ ________ equivalent lines at .379 cents per line	$ 17.43
Additional charge for notices containing rule or tabular work (50) percent of above amount	$
Charge for extra proofs of publication ($1.00 for each proof in excess of two)	$
TOTAL AMOUNT OF CLAIM	$ 17.43

Data For Computing Cost

Width of single column 10.3 ems
Number of insertions 1
Size of type 7 point

Pursuant to the provisions and penalties of Chapter 155, Acts 1953,

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Sarah Wilson

Date: July 9,2008 Title Publisher

Legal Notice

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 *et seq.* to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY

July 9

Publisher's Affidavit

State of Indiana)
) SS:
FULTON County)

Personally appeared before me, a notary public in and for said county and state the undersigned Sarah O. Wilson who, being duly sworn, says that she is PUBLISHER of the ROCHESTER SENTINEL newspaper of general circulation printed and published in the English language in the (city) (town) of Rochester.. in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said for 1 time the dates of publication being as follows:

July 9,2008

Sarah Wilson

Subscribed and sworn to before me this 9th day of July 2008

Mary E. Sundine

Mary E. Sundine: Resident Of Fulton C

My comission expires: Oct. 24,2010

PUBLISHER'S AFFIDAVIT

08-276 RR 7/11/08
LEGAL NOTICE Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code ? 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code ? 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the rate making mechanisms proposed by NIPSCO.
Eileen O'Neill Odum, CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY

State of Indiana) ss
Jasper County,)

Personally appeared before me, a notary public in and for said county and state, the undersigned Judy Kercheval who, being duly sworn upon (his) (her) oath, says that she he is a clerk for the Rensselaer Republican, a weekly newspaper of general circulation printed and published in the English language in the town of Rensselaer in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time ______, the dates of publication being as follows:

July 11 20 08 and ______ 20 ____

______ 20 ____ and ______ 20 ____

Subscribed and sworn to before me this 11 day of July 20 08

Kelli Elizabeth Sinowski
Notary Public

My commission expires April 28 20 16

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchase power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code & 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen ONeill Odum
CEO
NORTHERN INDIANA PUBLIC
SERVICE COMPANY
J10

Affidavit

Kosciusko County) SS:
State of Indiana)

Personally appeared before me, a notary public in and for said county and state, the undersigned Dennis Plummer who being duly sworn says that he is of competent age and is comptroller of the

WARSAW TIMES-UNION

a daily newspaper which for at least five (5) consecutive years has been published in the city of Warsaw, county of Kosciusko, State of Indiana, and which, during that time, has been a newspaper of general circulation, having a bona fide paid circulation, printed in the English language and entered, authorized and accepted by the post-office department of the United States of America as mailable matter of the second-class as defined by the Act of Congress of the United States of March 3, 1879, and that the printed matter attached hereto is a true copy, which was duly published in said newspaper 1 times, the dates of publication being as follows:

July 10

Dennis Plummer
Affiant

Subscribed and sworn to before me this 10 day of July, 08.

Roberta Bibler
Notary Public

ROBERTA BIBLER
My Commission Expires May 13, 2011
Resident of Kosciusko County

Printer's Fee, $ 45

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 9 of 22

Form Prescribed by State Board of Accounts

Nipsco
(Governmental Unit)
LaGrange County, Indiana

To: LaGrange News, Dr.
P.O. Box 148
LaGrange, Indiana 46761

Federal ID #35-0458020

PUBLISHER'S CLAIM

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of type in which the body of the advertisement is set) — number of equivalent lines	
Head — number of lines	1
Body — number of lines	18
Tail — number of lines	4
Total number of lines in notice	23

COMPUTATION OF CHARGES

23 lines, 2 columns wide equals 46 equivalent lines at .588 cents per line	$ 27.05
Additional charge for notices containing rule or tabular work (50 percent of above amount)	
Charge for extra proofs of publication ($1.00 for each proof in excess of two)	
TOTAL AMOUNT OF CLAIM	$ 27.05

DATA FOR COMPUTING COST

Width of single column 12 1/2 ems

Number of insertions 1

Size of type 5 1/2 point

Pursuant to the provisions and penalties of Chapter 155, Acts 1953,

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Date: July 11, 20 08

WF Connelly
Title: Editor

PUBLISHER'S AFFIDAVIT

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements;, (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 *et seq.* to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC
SERVICE COMPANY
N11

State of Indiana)
) ss:
LaGrange County)

Personally appeared before me, a notary public in and for said county and state, the undersigned **W. F. Connelly** who, being duly sworn, says that he is **Gen. Mgr.** of the **LaGrange News,** a newspaper of general circulation printed and published in the English language in the (city) (town) of **LaGrange,** in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time___, the dates of publication being as follows:

11 July 2008

WF Connelly

Subscribed and sworn to before me this 11th day of July 20 08.

Laura A. Ketelsen
Notary Public

My commission expires: Sept. 12, 2014

PUBLISHER'S AFFIDAVIT
PROOF OF PUBLICATION

NISOURCE CORPORATE SERVICES
PT3915

STATE OF INDIANA
COUNTY OF LAKE SS:

Before me, Betty M. Villareal, a notary public, this day personally came Maribel Delbrey, who being duly sworn in according to law, says she is LEGAL CLERK of the Post-Tribune Publishing, Inc., publishers of THE POST-TRIBUNE, a daily newspaper, published in GARY IN SAID COUNTY AND STATE and that the notice of which the annexed is true copy, was published in said paper.

On the 10 day of July 08

Maribel Delbrey

Maribel Delbrey, Legal Clerk

Subscribed and sworn to before me, this 21st day of July 2008

Betty M. Villareal

NOTARY PUBLIC

My commission expires Jan. 14, 2016

PT3915 7:10

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven factor test; and (8) approval of air alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY

Form Prescribed by State Board of Accounts

General Form No. 99P (Revised 1987)

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 11 of 22

NiSource
(Governmental Unit)

To: LaPorte Herald-Argus
701 State Street
La Porte, IN 46350
Federal ID # 35-1907691

LaPorte County, Ind **PUBLISHER'S CLAIM**

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of type in which the body of the advertisement is set) –number of equivalent lines .... ______

Head – number of lines.. 59

Body – number of lines.. ______

Tail – number of lines.. ______

Total number of lines in notice.. 59

COMPUTATION OF CHARGES

59.00 lines 1 columns wide equals equivalent line 59 at 0.277 cents per line $16.52

Additional charge for notices containing rule or tabular work (50 percent of above amount).. ______

Charge for extra proofs of publication ($1.00 for each proof In excess of two).. $ -

TOTAL AMOUNT OF CLAIM.. $ 16.52

DATA FOR COMPUTING COST

Width of single column 14ems
Number of insertions: 1
Size of type 6 point

Pursuant to the provisions and penalties of Chapter 155, Acts 1953

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Julie Frank

Date: July 9,2008 Title: Assistant Business Manager

PUBLISHER'S AFFIDAVIT

State of Indiana)
) ss:
LaPorte County)

Personally appeared before me, a notary public in and for said county and state, the undersigned Julie Frank, who being duly sworn, says that he/ she is Assistan Business Manager of The LaPorte Herald-Argus newspaper of general circulation printed and published in the English language in the (city) (town) of LaPorte in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time(s), the dates of publication being as follows:

July 9,2008

Subscribed and sworn to before me this 9th day of July, 2008

Lorynda Eisermann
Notary Public

My Commission expires: April 28, 2016

Lorynda Eisermann
Notary Public Seal State of Indiana
LaPorte County
My Commission Expires 04/28/2016

LEGAL NOTICE
Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY

ndiana, County of LaPorte, ss:

AFFIDAVIT

LaPorte County)
State of Indiana) SS:

Personally appeared before me, a notary public in and for said county and state, the undersigned Julie Frank, who being duly sworn says that she is of competent age and is Assistant Business Manager of the LaPorte Herald-Argus, a daily newspaper which for at least five (5) consecutive years has been published in the city of LaPorte, county of LaPorte, State of Indiana, and which during that time, has been a newspaper of general circulation, printed in the English language and entered, authorized and accepted by the post office department of the United States of America as mailable matter of the second-class as defined by the Act of Congress of the United States of March 3, 1879 and that the printed matter attached hereto is a true copy, which was duly published in said newspaper 1 times, the date of publication being as follows: July 9, 2008

Julie Frank

Affiant

Subscribed and sworn to before me, a Notary Public in and for said county, this 9th day of July, 2008.

Publisher's Fee $16.52

Lorynda Eisermann

My commission expires April 28, 2016

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 12 of 22

Lorynda Eisermann
Notary Public Seal State of Indiana
LaPorte County
My Commission Expires 04/28/2016

NiSource To Bremen Enquirer

Marshall County Bremen, Indiana

PUBLISHER'S CLAIM

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of the type in which the body of the advertisement is set) number of equivalent lines

Head - number of lines	50
Body - number of lines	50
Tail - number of lines	
Total number of lines in notice	50

COMPUTATION OF CHARGES

50 lines, 1 columns wide equals
50 equivalent
lines at 0.356 cents per line $17.80

Charge for extra proofs of publication
($2.00 for each proof in excess of two) $0.00

TOTAL AMOUNT OF CLAIM $17.80

DATA FOR COMPUTING COSTS

Width of a single column 11 ems Size of type 8 point
Number of insertions 1

Pursuant to the provisions and penalties of Ch. 155, Acts 1953,
I hereby certify that the forgoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

July. 17, 2008 Title General Manager
FED EIN # 35-2201618

PUBLISHER'S AFFIDAVIT

State of Indiana
Marshall County SS:
Personally appeared before me, a notary public in said county and state, the undersigned **Jerry Bingle** who, being duly sworn, says that (s)he is **General Manager** of the **Bremen Enquirer**, a **weekly** newspaper of general circulation printed and published in the English language in the (city)(town) of **Bremen** in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time(s), the dates of publication being as follows:
07/17/08

Subscribed and sworn to before me this 28th day of July, 2008

Michele L. Louderback
Michele L. Louderback Notary Public

My commission expires 04/29/12

MICHELE L. LOUDERBACK
Starke County
My Commission Expires
April 29, 2012

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code §8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code §8-1-2.5-1 *et seq.* to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY
July 17, 2008 BE35756

PROOF OF PUBLICATION

STATE OF INDIANA)
COUNTY OF NEWTON)

Legal Notice-Petition for Authority
To Raise Rates and Charges, etc.
Legal #08-204
NiSource Corp.
Publisher's Fee: $57.50

08-204 7/16/08
LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY

Before the undersigned Notary Public, in and for said County, personally appeared Betty Long, Office Administrator of THE NEWTON COUNTY ENTERPRISE, a weekly newspaper of general circulation, printed in the English language and published in Kentland, Indiana in said county; who being duly sworn on oath says that the advertisement of which the attached is a true copy, was duly published in said paper for 1 week(s), successively, the first of which publication was on the 16 day of July, 2008, and the last of which was on the 16 day of July, 2008.

Betty Long

Betty Long, Legal Adv. Clerk

Subscribed and sworn to before me this
16 day of July, 2008.

Randolph C. Pruden

Randolph C. Pruden- Notary Public
My Commission Exp. 10/2/13

Form Prescribed by
State Board of Accounts

To: KPC Media Group Inc.

Tax I.D. 35-0436930

P.O. Box 39, KENDALLVILLE, IN 4

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 15 of 22

PUBLISHERS OF THE NEWS SUN

PUBLISHER'S CLAIM

COMPUTATION OF CHARGES:

44 lines, 1 column(s) wide equals
44 equivalent lines at 0.3880 cents per line, 17.07

Additional charges for notices containing rule or tabular work
(50% of above amount) AND/OR extra proofs of publication
($1.00 for each proof in excess of 2) equals 0.00 0.00

Data for computing cost:
Width of single column - 12 ems
Size of type - 7 points
Size of quad upon which type is cast - 8 pt.
Number of insertions - 1 17.07

LINE COUNT	
HEAD (number of lines)	1
BODY (number of lines)	42
TAIL (number of lines)	1
TOTAL	44

"Pursuant to the provisions and penalties of Chapter 155, Act 1953, (s)he further says that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid"

Date: 7/14/08

Kelly Wallen
LEGAL CLERK

Ad #: 00134984
NI SOURCES CORPORATE SERVUCES

PUBLISHER'S AFFIDAVIT

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
Northern Indiana Public Service Company
NS,00134984,7/11

Noble County)
State of Indiana) SS:

Personally appeared before me. a notary public in and for said county and state, the undersigned Kelly Wallen who being duly sworn said that (s)he is of competent age and is LEGAL CLERK of KPC Media Group Inc, publisher of a daily newspaper in Kendallville, county of Noble, State of Indiana, a weekly newspaper in Ligonier, county of Noble, State of Indiana, a daily newspaper in Auburn, county of DeKalb, State of Indiana, a daily newspaper in Angola, county of Steuben, State of Indiana, a weekly newspaper in Garrett, county of DeKalb, State of Indiana, Butler a weekly newspaper in Butler, county of DeKalb, State of Indiana, and which during that time have been newspapers of general circulation, having bona fide paid circulations, printed in the English language and entered, authorized and accepted by the post office department of the United States of America as mailable matter of the second-class as defined by the Act of Congress of the United States on March 3, 1879, and that the printed matter attached is a true copy, which was duly published in said newspaper 1 times, the dates of publication being as follows : 07/11/2008

Affiant Kelly Wallen

Notary Public Mary Lo Monesmith

Subscribed and sworn before me on this 14th day of July, 2008
My commission expires May 21, 2010

NOTARY PUBLIC SEAL STATE OF INDIANA

Form Prescribed by State Board of Accounts

NiSource Corp

(Governmental Unit)

Lake County, Indiana

General Form No. 99P (Revised 1995)

To: Northwest Indiana Newspapers

601-45th Avenue, Munster, IN 46321

PUBLISHER'S CLAIM

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526
Page 16 of 22

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more that four solid lines of type in which the body of the advertisement is set) -- number of equivalent lines ______

Head -- number of lines ______
Body -- number of lines ______
Tail -- number of lines ______
Total number of lines in notice ______

COMPUTATION OF CHARGES

54 lines 1 columns wide equals 54 equivalent lines at 240 cents per line $129.60

Additional charge for notices containing rule or tabular work online

(50 percent of above amount) 10.00

Charge for extra proofs of publication ($1.00 for each proof in excess of two) ______

TOTAL AMOUNT OF CLAIM $139.60

20110398

DATA FOR COMPUTING COST

Width of single column 6.4 ems
Number of insertions 1
Size of type 5.5 point

Pursuant to the provisions and penalties of Chapter 155, Acts 1953,

I hereby certify that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Date: July 10, 2008

Title: Legal Clerk

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for:

(1) authority to modify its rates and charges for electric utility service;

(2) approval of new schedules of rates and chares applicable thereto;

(3) approval of revised depreciation accrual rates;

(4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects;

(5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocated NIPSCO's off system sales revenues;

(6) approval of various changes to NIPSCO's electric service tariff including with respect to general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism;

(7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and

(8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et. seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
Northern Indiana Public Service Company

7/10 - 20110398

PUBLISHER'S AFFIDAVIT

State of Indiana)
) ss:
Lake County)

Personally appeared before me, a notary public in and for said county and state, the undersigned Kati Stephens who, being duly sworn, says that she is Legal Clerk of the TIMES newspaper of general circulation printed and published in the English language in the (city) (town) of Munster in the state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time, the dates of publication being as follows:

July 10, 2008

Subscribed and sworn to before me this 10 day of July, 2008.

Notary Public

My commission expires: June 13, 2015

Proof of Publication

Publisher's Certificate

State of Indiana
County of Pulaski } SS:

Being first duly sworn upon his oath, deposes and says that he is the Publisher of the *Pulaski County Journal*, a weekly newspaper of general circulation, printed and published in the English language in the Town of Winamac, Pulaski County, Indiana.

That this notice, a true copy of which is attached hereto, was published (one) (two) (three) times to-wit on: July 16, 2008.

Publisher's Fee: $43.60

K. B. Stod

Signature
Publisher/Designated Agent

Subscribed and sworn to before me this 16 day of July 2006

Judy Coker
Notary Public

My commission expires: 5/18/11

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and changes for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY
169-08 N 7/16

State of Indiana
St. Joseph County ss:

Personally appeared before me, a notary public in and for said county and state, the undersigned Carol Smith who, being duly sworn says that she is of competent age and is Advertising Director of The South Bend Tribune, a daily newspaper which for at least five (5) consecutive years has been published in the City of South Bend, county of St. Joseph, State of Indiana, and which during that time, has been a newspaper of general circulation, having a bona fide paid circulation, printed in the English language and entered, authorized and accepted by the post office department of the United States of America as mailable matter of the second-class as defined by the act of Congress of the United States of March 3, 1879, and that the printed matter attached hereto is a true copy, which was duly published in said newspaper.

1 time s, the dates of publication being as follows:

July 9, 2008

Carol Smith

Subscribed and sworn to before me this 25th day of August 2008.

Geraldine Dickey

Geraldine Dickey
Notary Public
Resident of St. Joseph County

My commission expires January 28, 2009

Charges $24.72

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code Section 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues: (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code Section 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

1t: 7: 9

Starke County　　　　Knox, Indiana

PUBLISHER'S CLAIM

LINE COUNT

Display Matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of the type in which the body of the advertisement is set) number of equivalent lines

Head - number of lines	50
Body - number of lines	50
Tail - number of lines	
Total number of lines in notice	50

COMPUTATION OF CHARGES

50 lines, 1 columns wide equals
50 equivalent
lines at 0.356 　　$17.80

Charge for extra proofs of publication
($2.00 for each proof in excess of two)

TOTAL AMOUNT OF CLAIM 　　$17.80

DATA FOR COMPUTING COSTS

Width of a single column 11 ems　　Size of type 8 point
Number of insertions 1

Pursuant to the provisions and penalties of Ch. 155, Acts 1953,
I hereby certify that the forgoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid.

Date: July. 17, 2008　　Title [signature]
General Manager
FED EIN # 35-2201618

LEGAL NOTICE

Notice is hereby given that on une 27, 2008, Northern Indiana ublic Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission n Cause No. 43526 for (1) authority to modify its rates and charges or electric utility service; (2) approval of new schedules of rates and charges applicable thereto; 3) approval of revised depreciation accrual rates; (4) inclusion in s basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to nd. Code §8-1-2-42(a) to (a) mely recover charges and credits rom regional transmission organizations and NIPSCO's transmission revenue requirements; (b) imely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales evenues; (6) approval of various hanges to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code §8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA PUBLIC SERVICE COMPANY
July 17, 2008 KL35761

PUBLISHER'S AFFIDAVIT

State of Indiana
Starke County　SS:

Personally appeared before me, a notary public in said county and state, the undersigned **Jerry Bingle** who, being duly sworn, says that (s)he is **General Manager** of the **Knox Leader**, a **weekly** newspaper of general circulation printed and published in the English language in the (city)(town) of **Knox** in state and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for 1 time(s), the dates of publication being as follows:

07/17/08

Subscribed and sworn to before me this 28th day of July, 2008

[signature]
Michele L. Louderback　　Notary Public

My commission expires 04/29/12

MICHELE L. LOUDERBACK
Starke County
My Commission Expires
April 29, 2012

Form Prescribed by
State Board of Accounts

To: KPC Media Group Inc

P.O. Box 39, KENDALLVILLE, IN 467[illegible]

Tax I.D. 35-0436930

PUBLISHERS OF THE HERALD REPUBLICAN

PUBLISHER'S CLAIM

COMPUTATION OF CHARGES:

44 lines, 1 column(s) wide equals 44 equivalent lines at 0.3880 cents per line,	17.07
Additional charges for notices containing rule or tabular work (50% of above amount) AND/OR extra proofs of publication ($1.00 for each proof in excess of 2) equals 0.00	0.00
Data for computing cost: Width of single column - 12 ems Size of type - 7 points Size of quad upon which type is cast - 8 pt. Number of insertions -1	17.07

LINE COUNT

HEAD (number of lines)	1
BODY (number of lines)	42
TAIL (number of lines)	1
TOTAL	44

"Pursuant to the provisions and penalties of Chapter 155, Act 1953, (s)he further says that the foregoing account is just and correct, that the amount claimed is legally due, after allowing all just credits, and that no part of the same has been paid"

Date: 7/14/08

Kelly Wallen
LEGAL CLERK

Ad #: 00134981
NI SOURCES CORPORATE SERVUCES

PUBLISHER'S AFFIDAVIT

Noble County)
State of Indiana) SS:

Personally appeared before me. a notary public in and for said county and state, the undersigned Kelly Wallen who being duly sworn said that (s)he is of competent age and is LEGAL CLERK of KPC Media Group Inc, publisher of a daily newspaper in Kendallville, county of Noble, State of Indiana, a weekly newspaper in Ligonier, county of Noble, State of Indiana, a daily newspaper in Auburn, county of DeKalb, State of Indiana, a daily newspaper in Angola, county of Steuben, State of Indiana, a weekly newspaper in Garrett, county of DeKalb, State of Indiana, Butler a weekly newspaper in Butler, county of DeKalb, State of Indiana, and which during that time have been newspapers of general circulation, having bona fide paid circulations, printed in the English language and entered, authorized and accepted by the post office department of the United States of America as mailable matter of the second-class as defined by the Act of Congress of the United States on March 3, 1879, and that the printed matter attached is a true copy, which was duly published in said newspaper 1 times, the dates of publication being as follows : 07/11/2008

Affiant Kelly Wallen

Notary Public Mary Lou Moresmith

Subscribed and sworn before me on this 14th day of July, 2008
My commission expires May 21, 2010

NOTARY PUBLIC
SEAL
STATE OF INDIANA

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 et seq. to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum, CEO
Northern Indiana Public Service Company
HR,00134981,7/11

A copy of the affidavit of publication of the notice of the filing of the petition in this proceeding in the Williamsport's Review Republican, a newspaper of general circulation in Warren County, will be provided as a late-filed exhibit when it becomes available.

General Form No. 99P (Revised 1995)

NISOURCE CORP SERVICES COMPANY
(Governmental Unit)
WHITE COUNTY, INDIANA

To: Herald Journal
PO Box 409
Monticello IN 47960

Petitioner's Exhibit EOO-2
Northern Indiana Public Service Company
Cause No. 43526

PUBLISHER'S CLAIM

LINE COUNT

Display matter (Must not exceed two actual lines, neither of which shall total more than four solid lines of the type in which the body of the advertisement is set) -- number of equivalent lines........

Head - number of equivalent lines..
Body - number of equivalent lines..
Tail - number of equivalent lines..

Total number of equivalent lines in notice... 59

COMPUTATION OF CHARGES

59 lines 1 columns wide equals

59 equivalent lines at 0.329 per line $ 19.41

Additional charge for notices containing rule or tabular work
(50 percent of above amount)

Charge for extra proofs of publication
($1.00 for each proof in excess of two)

TOTAL AMOUNT OF CLAIM .... $ 19.41

DATA FOR COMPUTING COST
Width of single column 8 ems
Number of Insertions 1
Size of type: 6 pt

Pursuant to the provisions and penalties of Chapter 155, Acts 1953,

LEGAL NOTICE

Notice is hereby given that on June 27, 2008, Northern Indiana Public Service Company ("NIPSCO") filed a Petition with the Indiana Utility Regulatory Commission in Cause No. 43526 for (1) authority to modify its rates and charges for electric utility service; (2) approval of new schedules of rates and charges applicable thereto; (3) approval of revised depreciation accrual rates; (4) inclusion in its basic rates and charges of the costs associated with certain previously approved qualified pollution control property projects; (5) authority to implement a rate adjustment mechanism pursuant to Ind. Code § 8-1-2-42(a) to (a) timely recover charges and credits from regional transmission organizations and NIPSCO's transmission revenue requirements; (b) timely recover NIPSCO's purchased power costs; and (c) allocate NIPSCO's off system sales revenues; (6) approval of various changes to NIPSCO's electric service tariff including with respect to the general rules and regulations, the environmental cost recovery mechanism and the environmental expense mechanism; (7) approval of the classification of NIPSCO's facilities as transmission or distribution in accordance with the Federal Energy Regulatory Commission's seven-factor test; and (8) approval of an alternative regulatory plan pursuant to Ind. Code § 8-1-2.5-1 *et seq.* to the extent such relief is necessary to effect the ratemaking mechanisms proposed by NIPSCO.

Eileen O'Neill Odum
CEO
NORTHERN INDIANA
PUBLIC SERVICE COMPANY

7-10-1t

:by certify that the foregoing account is just and correct, that the amount claimed ally due, after allowing all just credits, and that no part of the same has been paid.

BONNIE K. KAIN

7/10/2008 Title: Legal Advertising Manager

PUBLISHER'S AFFIDAVIT

State of Indiana >
White County > ss:

Personally appeared before me a notary public in and for said county and state, the undersigned BONNIE K. KAIN who being duly sworn, says that she is legal advertising manager of the Herald Journal, a daily newspaper of general circulation, printed and published in the English language in the city of Monticello in state of and county aforesaid, and that the printed matter attached hereto is a true copy, which was duly published in said paper for

1 times, the dates of publication being as follows:

7/10/2008

Bonnie K. Kain

Legal Advertising Manager

Subscribed and sworn to before me this 10TH day of

JULY 2008 PEGGY M ANDERSON

M Anderson

Notary Public
County of Residence: White

MY COMISSION EXPIRES: MAY 23 - 2015

The residential customer notice will be provided as a late-filed exhibit when it becomes available.

Petitioner's Exhibit LEM-1

NORTHERN INDIANA PUBLIC SERVICE COMPANY

IURC CAUSE NO. 43526

VERIFIED DIRECT TESTIMONY

OF

LINDA E. MILLER

EXECUTIVE DIRECTOR, RATES AND REGULATORY FINANCE

SPONSORING PETITIONER'S EXHIBITS LEM-2 THROUGH LEM-10

VERIFIED DIRECT TESTIMONY OF LINDA E. MILLER

Q1. Please state your name, business address and job title.

A1. My name is Linda E. Miller. My business address is 801 East 86th Avenue, Merrillville, Indiana 46410. I am employed by NiSource Corporate Services ("NCS"), which is a subsidiary of NiSource Inc. ("NiSource"). My current position is Executive Director of Rates and Regulatory Finance for the Northern Indiana Energy business unit, which is comprised of Northern Indiana Public Service Company ("NIPSCO" or the "Company"), Northern Indiana Fuel and Light Company, Inc, and Kokomo Gas and Fuel Company, all of which are subsidiaries of NiSource. I am submitting this testimony on behalf of NIPSCO.

Q2. Please summarize your employment and educational background.

A2. I graduated from the College of the Southwest with a bachelor's degree in business, majoring in accounting in 1985. I am a Certified Public Accountant in Indiana. I have held various positions during my career, including Assistant Comptroller for a regional bank and Controller for a regional newspaper. In 1999, I accepted a position with NIPSCO's business planning department. On January 1, 2001, I became an employee of NCS. I was promoted to Segment Controller for the Northern Indiana Energy business unit in August 2002. In February 2008, I became Director of Rates and Regulatory Finance. In June 2008, I was named Executive Director of Rates and Regulatory Finance.

Q3. What are your responsibilities as Executive Director of Rates and Regulatory Finance?

A3. For the Northern Indiana Energy business unit, I have overall responsibility for rate and contract administration, revenue requirements, rate design, electric and gas rates, rules, regulations and contract filings with the Indiana Utility Regulatory Commission ("IURC" or "Commission"), the preparation and filing of all electric and gas cost adjustment filings with the IURC, the preparation and coordination of other regulatory filings, implementation and compliance with state and federal regulatory orders, and all regulatory finance matters.

Q4. Have you previously testified before this Commission?

A4. Yes, on many occasions.

Q5. What is the purpose of your testimony in this proceeding?

A5. NIPSCO is proposing a two-step rate increase. With regard to Step One, the purpose of my testimony is to present rate base, capital structure and weighted cost of capital, and results of operations during the test year and on a pro forma basis at both present and proposed rates. I will also describe NIPSCO's proposed tracking mechanisms and changes to existing tracking mechanisms. Other NIPSCO witnesses also address the Company's proposed tracking mechanisms. The purpose of my testimony concerning Step Two is to present the additional revenue requirement, including return, operating costs (including taxes), and depreciation/amortization expense associated with the Sugar Creek generating facility ("Sugar Creek Facility").

Q6. Please summarize your testimony for Step One.

A6. As explained by NIPSCO Witness Frank A. Shambo, the Company proposes to remove the cost of fuel and associated taxes from base rates. The Company proposes to recover through base rates the gross margin (total revenues less fuel, purchased power and associated taxes) of $900,631,816. NIPSCO requests a net increase in base rates calculated to produce additional gross margin of $23,983,452 based on test year pro forma levels. This amount is calculated to provide the opportunity to earn net operating income of $195,279,443. Support for the Step One request is presented in Petitioner's Exhibits LEM-2 through LEM-5.

Q7. What exhibits are you sponsoring and were the exhibits prepared by you or under your supervision and direction?

A7. I am sponsoring Petitioner's Exhibits LEM-2 through LEM-10, all of which were prepared by me or under my supervision and direction.

Q8. Please describe the exhibits relating to Step One.

A8. Petitioner's Exhibit LEM-2, pages 1 of 4 and 2 of 4, is a statement of NIPSCO's net operating income for the test year ended December 31, 2007 shown on an actual basis, and with pro forma adjustments at current and proposed rates; Petitioner's Exhibit LEM-2, page 3 of 4, shows the calculation of the proposed revenue increase; and Petitioner's Exhibit LEM-2, page 4 of 4, is a reconciliation of the requested revenue increase. Petitioner's Exhibit LEM-3 consists of a separate page for each income statement adjustment. Petitioner's Exhibit LEM-4, page 1 of 2, shows the original cost rate base and a summary of proposed updates; Petitioner's Exhibit LEM-4, page 2 of 2, shows the detail of the proposed updates. Petitioner's Exhibit LEM-5, page 1 of 3, is the capital structure and overall weighted cost of capital; Petitioner's Exhibit LEM-5, page 2 of 3, shows the capital structure updates; and Petitioner's Exhibit LEM-5, page 3 of 3, is a schedule of outstanding long-term debt. Petitioner's Exhibit LEM-10 shows the sample schedules proposed to be utilized with the proposed Reliability Adjustment ("RA") tracking mechanism.

I. STATEMENT OF OPERATING INCOME

Q9. Please explain Petitioner's Exhibit LEM-2.

A9. Petitioner's Exhibit LEM-2, pages 1 of 4 and 2 of 4, is the Statement of Operating Income for the twelve months ended December 31, 2007 shown on an actual basis, and with pro forma adjustments at current and proposed rates. Column B shows the actual results for the twelve months ended December 31, 2007. Column C shows the pro forma adjustments made for the fixed, known and measurable changes to reflect ongoing operations levels at current rates. A detailed listing of the pro forma adjustments is shown on Petitioner's Exhibit LEM-3 and are discussed later in my testimony. Column D shows the reference to each of the detailed adjustments. Column E shows the pro forma levels at current rates. Column F shows the increases necessary to produce the required levels of operating revenue and income. Column G shows the reference to each of the line items in the proposed increase in operating revenue and income. Column H shows the pro forma statement of operating revenue and income at proposed rates. Petitioner's Exhibit LEM-2, Page 3 of 4, shows the calculation of the proposed base rate change to produce the gross margin revenue increase of $23,983,452. Petitioner's Exhibit LEM-2, Page 4 of 4, shows a reconciliation of the requested increase.

II. REVENUE ADJUSTMENTS

Q10. Please explain Adjustment REV-1 on Petitioner's Exhibit LEM-2.

A10. Adjustment REV-1 on Petitioner's Exhibit LEM-2 is to reduce (debit) operating revenues in the amount of $14,604,146 for warmer than normal weather during the 2007 test year. NIPSCO Witness William Gresham discusses the methodology utilized to determine the $14,604,146 operating revenue adjustment. The dollar amount of the adjustment was calculated by applying Mr. Gresham's MWH adjustments to the applicable rate for each month in the May through October Cooling Degree Days season. This calculation is further detailed in the workpapers to be filed in this proceeding. This adjustment was made to normalize the test year revenues to exclude the variable impact of weather. If this adjustment is not included, test year operating revenues would be overstated. A corresponding adjustment was made to fuel expense in Adjustment FP-1 on Petitioner's Exhibit LEM-2 below.

Q11. Please explain Adjustment REV-2 on Petitioner's Exhibit LEM-2.

A11. Adjustment REV-2 on Petitioner's Exhibit LEM-2 is to increase (credit) operating revenues in the amount of $1,432,424 for the imputation of customer revenue for those customers on Economic Development Rider ("EDR") rates. The customers on these EDR rates receive a discount from the tariff rate level and, since NIPSCO is requesting a rate increase in this proceeding, this discounted amount is required by the tariff to be imputed as an increase (credit) to the test year operating revenues. This adjustment amount was obtained by querying the Customer Information System ("CIS") used to bill customers. The CIS produced a report itemizing the discount given to each customer for each month in the test year, which was used to determine the sum of $1,432,424. If this adjustment is not included, test year operating revenues would be understated.

Q12. Please explain Adjustment REV-3 on <u>Petitioner's Exhibit LEM-2</u>.

A12. Adjustment REV-3 on <u>Petitioner's Exhibit LEM-2</u> is to increase (credit) operating revenues in the amount of $80,082,674 to account for the expiration of special contract rates applicable to certain large industrial customers. These special contracts provide significant discounts from tariff rates. The adjustment is primarily related to contracts that are set to expire six months following the implementation of the new basic rates and charges approved in this proceeding in accordance with the terms of the Commission Orders approving the contracts or in accordance with the terms of the contracts themselves. While this adjustment is outside the adjustment period to be used in this Cause, I have calculated the adjustment so as to eliminate the discount. Mr. Shambo further discusses the revenue adjustment for this group of customers. If this adjustment is not included, test year operating revenues would be understated.

Q13. Please explain Adjustment REV-4 on <u>Petitioner's Exhibit LEM-2</u>.

A13. Adjustment REV-4 on <u>Petitioner's Exhibit LEM-2</u> is to increase (credit) operating revenues in the amount of $33,500,000 due to a settlement agreement approved by the Commission's January 30, 2008 Order in Cause No. 38706-FAC71 requiring a refund to customers (the "FAC71 Settlement"). In September 2007, operating revenues were reduced (debited) by $33,500,000 and a reserve established for return to customers and payment of legal fees of certain parties to the FAC71 Settlement. The $33,500,000 refund related to certain purchased power costs, in accordance with the FAC71 Settlement. The $33,500,000 entry was made as a one-time reduction to revenue during the test year. In order to properly reflect the 2007 test year operating revenues at present rates, this nonrecurring entry is required to be adjusted. If this adjustment is not included, test year operating revenues would be understated.

Q14. Please explain Adjustment REV-5 on <u>Petitioner's Exhibit LEM-2</u>.

A14. Adjustment REV-5 on <u>Petitioner's Exhibit LEM-2</u> is to reduce (debit) operating revenues in the amount of $2,203,737 to eliminate the test year impact of entries made to reverse a reserve balance previously established related to financial transactions. The reserve had been established in the amount of net "losses" on financial transactions, pending approval of the treatment of these transactions via the fuel adjustment clause ("FAC") mechanism. The FAC71 Settlement (previously discussed in Adjustment REV-4) resolved this issue as well. As a result, this reserve was reversed and a full reserve for the amount of the FAC71 Settlement was established, reducing revenues. If this adjustment is not included, test year operating revenues would be overstated.

Q15. Please explain Adjustment REV-6 on <u>Petitioner's Exhibit LEM-2</u>.

A15. Adjustment REV-6 on <u>Petitioner's Exhibit LEM-2</u> is to reduce (debit) operating revenues in the amount of $804,136 for a particular group of customers in the metal melting business. For this group of customers, the 2007 test year revenues reflected operating volumes higher than that contractually allowed. This level of volumes above the contract volumes was not anticipated and will not be permitted in the future. Therefore, this adjustment is made in order to reflect test year revenues at a level equivalent to the level of revenues that would have been received had this group of customers not been operating above contract levels. If this adjustment is not included, test year operating revenues would be overstated. Mr. Shambo further discusses the adjustment for this group of customers. A corresponding adjustment was made to fuel expense in Adjustment FP-2 on Petitioners Exhibit LEM-2 below.

Q16. Please explain Adjustment REV-7 on Petitioner's Exhibit LEM-2.

A16. Adjustment REV-7 on Petitioner's Exhibit LEM-2 is to increase (credit) operating revenues in the amount of $10,955,615 for a one-time unbilled revenue correction recorded in 2007 but related to prior periods. This entry was made as a result of a change in the methodology used to calculate unbilled revenues and receivables. This change resulted in a one-time adjusting entry to the income statement and balance sheet in the test year, reducing revenues. Unbilled revenues and receivables have no impact on customer bills. Unbilled amounts are calculated based on an estimate of the amount of volumes that have not yet been billed at the end of the test year. During the review of the December 2007 closing of the financial books, it was determined that the December 31, 2007 estimate of unbilled volumes was higher than it should be, and that therefore, the unbilled receivable balance would be overstated, if not adjusted. The adjusting entry to correct for this was a credit (reduction) to receivables and a debit (reduction) to revenues, made to the December 2007 books, prior to issuing final financial statements. The analysis of the unbilled volumes revealed a need to revise the methodology being used and also revealed that the method that had been in use affected revenues and receivables for prior years as well as 2007. Therefore, the correcting entry, although made in 2007, affected prior periods as well. Adjustment REV-7 adds back the amount of revenue reduction that relates to periods prior to the test year. The amounts related to prior periods, but recorded in the test year are adjusted out in order to eliminate the impact to the test year operating income statement. If this adjustment is not included, test year operating revenues would be understated. NIPSCO Witness Mitchell E. Hershberger further discusses the calculation of the unbilled correcting entry.

Q17. Please explain Adjustment REV-8 on Petitioner's Exhibit LEM-2.

A17. Adjustment REV-8 on Petitioner's Exhibit LEM-2 is to reduce (debit) operating revenues in the amount of $50,400,058 for off-system sales revenues. This amount represents the total amount of off-system sales revenues realized in the test year. This adjustment is required because in this proceeding, Petitioner proposes that 100% of future off-system sales margins be passed back to the ratepayers up to $15 million annually. NIPSCO requests that any off-system sales margins generated beyond the amount of $15 million annually will be shared, with 80% going to ratepayers. Petitioner is proposing that this be accomplished via the proposed RA tracking mechanism, which is described later in my testimony. Mr. Shambo further discusses this proposal and NIPSCO Witness Curtis Crum describes this mechanism. If this adjustment is not included, operating revenues would be overstated. A corresponding adjustment for the fuel and purchased power costs associated with the 2007 off-system sales revenues is made in Adjustment FP-5 on Petitioner's Exhibit LEM-2 below.

Q18. Please explain Adjustment REV-9 on Petitioner's Exhibit LEM-2.

A18. Adjustment REV-9 on Petitioner's Exhibit LEM-2 is to reduce (debit) operating revenues in the amount of $11,790,599 for revenues generated through the sales of emissions allowances. Petitioner proposes that in the future when such sales arise, the net proceeds of such sales will be passed back to the ratepayers via NIPSCO's existing Environmental Expense Recovery Mechanism ("EERM"). Mr. Shambo further discusses this proposal. If this adjustment is not included, test year operating revenues would be overstated.

Q19. Please explain Adjustment REV-10 on Petitioner's Exhibit LEM-2.

A19. Adjustment REV-10 on Petitioner's Exhibit LEM-2 is to reduce (debit) operating revenues in the amount of $4,726,034 for 2007 transmission revenues from the Midwest Independent Transmission System Operator, Inc. ("Midwest ISO" or "MISO") Schedules 7 and 8 and the revenues from MISO Schedules 1 and 2 associated with Schedules 7 and 8. This adjustment is required due to the fact that, in this proceeding, Petitioner proposes that 100% of future transmission revenues from the aforementioned MISO schedules be passed back to ratepayers via the RA mechanism mentioned previously and described later in my testimony. Mr. Shambo further discusses this proposal. Mr. Crum further describes this mechanism. If this adjustment is not included, test year operating revenues would be overstated.

III. EXPENSE ADJUSTMENTS

A. Fuel and Purchased Power Expense Adjustments

Q20. Please explain Adjustment FP-1 on Petitioner's Exhibit LEM-2.

A20. Adjustment FP-1 on Petitioner's Exhibit LEM-2 is to reduce (credit) test year operating expenses in the amount of $3,683,450 to decrease fuel and purchased power costs associated with the operating revenue adjustment for weather normalization as outlined in Adjustment REV-1. The dollar amount of this adjustment was calculated by applying the base fuel amount of 22.556 mills/kwh to Mr. Gresham's adjustment of 163,303 MWH. If this adjustment is not included, the test year operating expenses would be overstated.

Q21. Please explain Adjustment FP-2 on Petitioner's Exhibit LEM-2.

A21. Adjustment FP-2 on Petitioner's Exhibit LEM-2 is to reduce (credit) test year operating expenses in the amount of $628,813 to decrease fuel costs related to the group of customers described previously with respect to Adjustment REV-6. If this adjustment is not included, test year operating expenses would be overstated.

Q22. Please explain Adjustment FP-3 on Petitioner's Exhibit LEM-2.

A22. Adjustment FP-3 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $100,891 related to fuel handling expenses. It was discovered that mobile fuel handling equipment depreciation had continued to be charged to the D.H. Mitchell Generating Station ("Mitchell"), despite the fact that the coal-fired units at this station ceased generating in 2002. This depreciation was related to coal handling equipment originally utilized at Mitchell. It was determined that the equipment had been physically transferred to the R. M. Schahfer and Michigan City Generating Stations for use but the corresponding transfer on the Company's books and records was not made. Because fuel handling charges are recorded by generating station, the Mitchell fuel handling account (balance sheet account 152) continued to accumulate these charges. Normally, fuel handling charges are accumulated in balance sheet account 152 and cleared to operating expenses in relation to the coal burned during generation. Because Mitchell was not generating, the amounts were never cleared to expense. In March, 2008 the general accounting department corrected the distribution of fuel handling depreciation that should have been charged to the other generating stations (where the equipment was located and being operated). This correction amounted to $605,349. These amounts will be cleared to fuel operating expenses on a going forward basis. The correction relates to a six (6) year period, 2002 through 2007. As a result, I have calculated my adjustment to reflect one sixth (1/6) of the adjustment or $100,891 that would have been included in fuel expense during the 2007 test year. If this adjustment is not included, test year operating expenses would be understated.

Q23. Please explain Adjustment FP-4 on <u>Petitioner's Exhibit LEM-2</u>.

A23. Adjustment FP-4 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $840,335 for the increase in the cost of diesel fuel used in the fuel handling equipment in the generating stations. This adjustment is necessary due to the increasing cost of diesel fuel. The amount of the adjustment was calculated by multiplying the quantity of diesel fuel purchased in the test year (479,319 gallons) times a per gallon rate ($4.032) based on the latest vendor invoice and comparing the result of

$1,932,614 to the total amount spent on diesel fuel in the generating stations during the test year, per the financial books and records, which was $1,092,279. The difference between the $1,932,614 and the $1,092,279 is the adjustment amount of $840,335. If this adjustment is not included, test year operating expenses would be understated.

Q24. Please explain Adjustment FP-5 on Petitioner's Exhibit LEM-2.

A24. Adjustment FP-5 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $21,285,492 related to Adjustment REV-8. As described previously, this adjustment is due to the fact that, in this proceeding, Petitioner will be proposing that 100% of future off-system sales margins be passed back to the ratepayers up to $15 million annually. NIPSCO requests that any off-system sales margins generated beyond the amount of $15 million annually will be shared, with 80% flowed to ratepayers. Petitioner is proposing that this be accomplished via the RA mechanism mentioned previously and described later in my testimony. Mr. Crum also describes this mechanism. If this adjustment is not included, test year operating expenses would be overstated.

B. Operating Expense Adjustments

Q25. Please explain Adjustment OM-1 on Petitioner's Exhibit LEM-2.

A25. Adjustment OM-1 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $1,006,664 for an increase in contract labor used by the Generation Department. The Generation Department contracts with outside companies to provide labor for many projects. NIPSCO Witness Phillip W. Pack further discusses this adjustment. If this adjustment is not made, test year operating expenses would be understated.

Q26. Please explain Adjustment OM-2 on Petitioner's Exhibit LEM-2.

A26. Adjustment OM-2 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $4,001,238 related to the variable costs required to operate the Company's generating facilities during the test year. This adjustment is based on normalizing test year expenses for unusual periods of generating unit outages. Mr. Sweet discusses how this calculation was made. If this adjustment is not included, test year operating expenses would be understated.

Q27. Please explain Adjustment OM-3 on Petitioner's Exhibit LEM-2.

A27. Adjustment OM-3 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $5,762,558 related to pension expense. Pension calculations are determined by the Company's actuary, Hewitt and Associates, utilizing a number of assumptions including discount rate, life expectancy and return on assets. These factors can and do lead to fluctuations in the level of pension costs from year to year. Pension costs have been highly volatile in recent years, with the range from 2003 to the present varying by nearly $50 million. To mitigate and normalize this volatility, I calculated a five-year average of pension expense. This calculation leads to a pro forma level of pension cost equaling $2,139,542 (debit). After allocating to electric using the established common allocation ratios, which are discussed by Mr. Hershberger, the 5-year electric average is $1,479,493. After deducting the portion capitalized, the 5-year electric average expense is $1,122,491. The 2007 actual was a credit of $8,844,269 and the amount allocated to electric was a credit of $6,115,812. After deducting for the portion capitalized, the 2007 actual electric expense was a credit of $4,640,067. The 5-year average electric expense of $1,122,491 as compared to the 2007 electric credit of $4,640,067 results in a required adjustment of $5,762,558. NIPSCO Witness Robert D. Campbell further discusses the company's pension plans. If this adjustment is not included, test year operating expenses would be understated.

Q28. Please explain Adjustment OM-4 on <u>Petitioner's Exhibit LEM-2</u>.

A28. Adjustment OM-4 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $5,762,460 related to other post retirement employee benefits ("OPEB") expense. OPEB calculations are determined by the Company's actuary, Hewitt and Associates. The 2008 OPEB expense, as calculated by the actuary, was allocated to electric using NIPSCO's common allocation ratios, and was then compared to the actual 2007 electric portion of OPEB expense in the test year to determine the amount of this pro forma adjustment. Unlike the pension expense described above, OPEB is not subject to market fluctuations, and therefore the 2008 estimate calculated by Hewitt and Associates is believed to be a representative level of OPEB expense. If this adjustment is not included, test year operating expenses would be understated.

Q29. Please explain Adjustment OM-5 on <u>Petitioner's Exhibit LEM-2</u>.

A29. Adjustment OM-5 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $5,083,259 related to employee wage increases. The

Company currently has in effect for its physical and clerical bargaining unit employees, contracts effective June 1, 2004 and extending through May 31, 2009. In accordance with those contracts, wage rates increase at the end of each calendar year from 2004 through 2008. The 2007 year end wage rate increase was 3%; wages will increase again by 3% at the end of 2008. I have adjusted for the effect of the employee wage increase that took effect upon the conclusion of the test year and then also adjusted for the increase that will take effect 12 months thereafter at the end of 2008. The 2007 adjustments for the physical and clerical employees are $3,311,418 and $562,924, respectively. The 2008 adjustments are $3,410,760 and $579,812, respectively. The non-bargaining unit employees of NIPSCO receive wage increases on March 1 of each year. In order to annualize the 2007 test year expense, the wages for the January and February, 2007 period were increased by approximately 3% resulting in $239,364. In addition, the non-bargaining unit employees of NIPSCO received a 3.25% increase effective March 1, 2008. In order to adjust for the 2008 wage increase, the normalized wages for 2007 were increased by 3.25% resulting in an increase of $1,584,744. The total increase for the non-bargaining unit and bargaining unit wage increase adjustments resulted in an increase of $9,689,022, which was then allocated to electric, using the established common allocation ratios, net of amounts capitalized, resulting in an electric operating expense increase of $5,083,259. If this adjustment is not included, test year operating expenses would be understated.

Q30. Please explain Adjustment OM-6 on Petitioner's Exhibit LEM-2.

A30. Adjustment OM-6 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount $916,264 related to incentive compensation in excess of the "trigger" level. During the 2007 test year, incentive amounts were expensed equal to 125% of the "trigger." This adjustment reduces expense to the "trigger" level amount, which is historically the "normal" level for NIPSCO expenses, and adjusts for true-ups recorded to expense during the test year that were related to the prior year. True-ups occur due to the method by which incentive plan expense is accrued. Incentive plan expense is accrued in the current year based on an estimate of what is expected to be paid out in the following year. Any difference between the amount paid out and the amount accrued is "trued-up" in the payout year, resulting in debits or credits to expense related to the prior year. These adjustments have been offset by the additional incentive compensation for the wage increases outlined in Adjustment OM-5. The adjustment was calculated by comparing the amount currently being accrued for 2008, which anticipates a "trigger" level payout with the amount recorded in 2007. The amount being accrued for 2008, after deducting for the portion capitalized is $4,957,350. The net amount, after true-ups, and after deducting for the portion capitalized recorded in the 2007 test year was $6,244,139. The difference between these two amounts is $1,286,789. A downward adjustment for profit sharing expense of $38,249 was also computed in the same manner and for the same reasons. The combined total of the two adjustments above was $1,325,038. After allocating to electric, the net adjustment to electric operating expenses is a reduction (credit) to operating expenses of $916,264. Mr. Campbell further discusses the Incentive Plan. If this adjustment is not included, test year operating expenses would be overstated.

Q31. Please explain Adjustment OM-7 on <u>Petitioner's Exhibit LEM-2</u>.

A31. Adjustment OM-7 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $3,925,207 to reflect additional staffing required as a result of workforce aging and retirements. This required additional staffing was not reflected in the test year, and therefore an adjustment is required in order to reflect ongoing levels. This adjustment was calculated by determining the number of replacements that will be needed in each functional area over the next five years, applying the appropriate hourly wage for bargaining unit positions and the appropriate salary for supervisory positions, then applying the cost of benefits. The total of these amounts for the five-year period was averaged, resulting in an annual amount of $3,925,207. Mr. Campbell discusses the workforce aging program and the number of employees required to provide the necessary services to our customers. If this adjustment is not included, test year operating expenses would be understated.

Q32. Please explain Adjustment OM-8 on <u>Petitioner's Exhibit LEM-2</u>.

A32. Adjustment OM-8 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $5,016,101 to reflect additional staffing required to fill current vacancies in positions that NIPSCO is actively in the process of securing candidates. This adjustment is being made in order to reflect the proper level of salary expense, since the 2007 test year did not reflect salary expense for these positions that had not yet been filled. This amount was calculated by obtaining a list of 104 vacancies from the Human Resources department and applying the appropriate hourly wage for each bargaining unit position and the appropriate salary amount for each supervisory position. Benefits were then added, as well as incentive compensation based on the incentive range for the position level. The resulting amount was $9,561,015. Vacancies for electric-specific positions were identified as such and common positions were allocated to electric based on the established common allocation ratios. After determining the electric amount and deducting for the portion capitalized, the net adjustment was an increase (debit) to electric operating expenses of $5,016,101. Mr. Campbell discusses the number of vacancies and the process NIPSCO utilizes to fill vacant positions. If this adjustment is not included, test year operating expenses would be understated.

Q33. Please explain Adjustment OM-9 on Petitioner's Exhibit LEM-2.

A33. Adjustment OM-9 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $6,413,789 to reflect additional staffing required to fill 83 new positions necessitated by the organizational structure changes occurring for the Indiana business unit. This adjustment is being made in order to reflect the proper level of salary expense, since the 2007 test year did not reflect salary expense for these positions. NIPSCO currently is in the process of filling these positions. These staffing changes include: senior level positions in Customer Engagement and Communications intended to increase the Indiana focus; additional management positions in Service Delivery; additional positions needed for new FERC and NERC compliance requirements; a new Resource Planning department; and several additional positions in Generation. The

Company also is increasing staffing levels of the Rates department, including positions with responsibility for the DSM programs being developed by the Company to be proposed in a separate filing, and new Regulatory and Legislative Affairs policy management positions, to be located in the Company's Indianapolis office. Estimated salary amounts were applied according to the position level, and benefits and incentive amounts were added in a manner similar to that described in Adjustment OM-8 for staffing vacancies. Positions specific to electric were designated as such, and common positions were allocated to electric using the established common allocation ratios. After determining the electric amount and deducting for the portion capitalized, the net adjustment was an increase (debit) to electric operating expenses of $6,413,789. NIPSCO Witness Eileen O'Neill Odum describes the Indiana business unit organizational structure and the need for these additional positions. If this adjustment is not included, test year operating expenses would be understated.

Q34. Please explain Adjustment OM-10 on <u>Petitioner's Exhibit LEM-2</u>.

A34. Adjustment OM-10 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $448,589 to reflect additional staffing and protective safety equipment required to comply with new regulations and safety initiatives, as these costs were not reflected in 2007 test year expense. The safety program and initiatives and the calculation of this adjustment are discussed by NIPSCO Witness Timothy A. Dehring. If this adjustment is not included, test year operating expenses would be understated.

Q35. Please explain Adjustment OM-11 on <u>Petitioner's Exhibit LEM-2</u>.

A35. Adjustment OM-11 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $55,425 to reflect lobbying costs and payment adjustments included in the Edison Electric Institute ("EEI") dues expense during the test year. The Company rejoined the EEI effective the 4th quarter of 2006. In December 2006, the Company accrued an estimated amount for 2006 EEI dues because the bill had not yet been received. In January 2007, when the bill was received and paid, the amount due was less than estimated. As a result, a credit to expense of $72,588 was recorded in 2007, which related to the 2006 period. To normalize the test year for EEI dues, an adjustment of $72,588 was added (debit) to increase operating expenses. A full year of EEI dues was reflected in 2007 expenses, but since the EEI membership dues invoice includes an amount related to lobbying costs, an adjustment has been made to reduce (credit) expenses by $128,013. The net result of these adjustments related to EEI dues is a decrease (credit) to test year operating expenses of $55,425. If this adjustment is not included, test year operating expenses would be overstated.

Q36. Please explain Adjustment OM-12 on <u>Petitioner's Exhibit LEM-2</u>.

A36. Adjustment OM-12 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $60,063 to remove all institutional and goodwill advertising costs included in account E930.1. If this adjustment is not made, test year operating expenses would be overstated.

Q37. Please explain Adjustment OM-13 on Petitioner's Exhibit LEM-2.

A37. Adjustment OM-13 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $200,000 to reflect uncollectible accounts expense. As a result of the Bailly Generating Station N1 refund ordered in this Commission's February 21, 1990 Order in Cause No. 37972, the Company was required to offset this amount against uncollectible accounts expense in the Company's next electric base rate case. If this adjustment is not made, test year operating expenses would be overstated.

Q38. Please explain Adjustment OM-14 on Petitioner's Exhibit LEM-2.

A38. Adjustment OM-14 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $71,796 to reflect increased postal rates effective in May 2007 and May 2008. This adjustment reflects the electric portion of increased postage costs for customer billing. The adjustment was calculated by increasing 2007 test year postage expense in accordance with increased postal rates and then annualizing the increases to reflect ongoing annual amounts. The computation began with 2007 test year actual postage expense of $3,248,277. I then annualized the postal increase that took effect May 14, 2007. This resulted in a 2007 adjusted amount of $3,312,597. This amount was then adjusted for the postal increase that took effect May 14, 2008, totaling $3,432,417. The difference between the $3,432,417 and the 2007 actual amount of $3,248,277 is $184,140. This amount was then allocated between electric and gas based upon the number of customers, resulting in a net increase (debit) in electric operating expenses of $71,796. If this adjustment is not included, test year operating expenses would be understated.

Q39. Please explain Adjustment OM-15 on Petitioner's Exhibit LEM-2.

A39. Adjustment OM-15 on Petitioner's Exhibit LEM-2 is to increase (debit) operating test year expenses in the amount of $799,403 to reflect increased gasoline and diesel fuel costs. The average cost of bulk gasoline and diesel fuel during the 2007 test year was recalculated utilizing a more current cost (March 2008). The amount of the adjustment was calculated by multiplying the quantity of gasoline and diesel fuel used in the test year times the per gallon rates based on the latest vendor invoices, allocating to electric, and comparing the resulting amount to the total amount spent on gasoline and diesel fuel during the test year. If this adjustment is not included, test year operating expenses would be understated.

Q40. Please explain Adjustment OM-16 on Petitioner's Exhibit LEM-2.

A40. Adjustment OM-16 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $2,078,499 to reflect additional costs for vegetation management. Mr. Dehring discusses this adjustment. If this adjustment is not included, test year operating expenses would be understated.

Q41. Please explain Adjustment OM-17 on Petitioner's Exhibit LEM-2.

A41. Adjustment OM-17 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $2,318,771 to reflect items related to services provided by NCS. NIPSCO Witness Susanne M. Taylor discusses the allocation processes and the pro forma adjustment to the 2007 test year. Mr. Hershberger discusses the processes used by NIPSCO accounting to review charges received from NCS and the processes used to identify the adjustment noted above. The $2,318,771 adjustment is the sum of the adjustments proposed by these two witnesses. If this adjustment is not included, test year operating expenses would be overstated.

Q42. Please explain Adjustment OM-18 on Petitioner's Exhibit LEM-2.

A42. Adjustment OM-18 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $3,187,121 to annualize a change resulting from an improvement in methodology used to allocate common costs between the gas and electric business for NIPSCO. The methodology change took place in the second quarter of the test year. The common allocation methodology and practice historically used was based on a 1968 study. During 2006, a comprehensive review of the methodology was undertaken and changes were made to more accurately reflect the current operations of the Company. In addition, the study was developed to align the cost allocations with the corporate services allocation methodology to provide consistency of allocation methods within NiSource. A complete description of the common allocation study and the methodology is discussed by Mr. Hershberger. The adjustment is made in order to properly reflect a full year of allocated electric costs. The adjustment is computed by applying to the first quarter of the test year the allocation percentages (similar to those in Mr. Hershberger's Petitioner's Exhibit MEH-4) that would have applied at the time using the new methodology. If this adjustment is not included, test year operating expenses would be understated.

Q43. Please explain Adjustment OM-19 on Petitioner's Exhibit LEM-2.

A43. Adjustment OM-19 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $366,293 for non-recoverable advertising costs. To ensure that non-recoverable advertising costs were appropriately excluded, this adjustment was calculated by removing all general advertising costs, per the financial books and records. A review of advertising costs was then undertaken, and those costs related to appropriately recoverable advertising, such as recruitment and safety, were added back in. These types of costs produce a material benefit to the ratepayers. Copies of such advertising are included in the workpapers to be filed in this proceeding. The result was a net reduction (credit) to electric operating expenses of the $366,293 noted above. If this adjustment is not made, test year operating expenses would be overstated.

Q44. Please explain Adjustment OM-20 on Petitioner's Exhibit LEM-2.

A44. Adjustment OM-20 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $84,528 to remove certain non-recoverable charges, such as lobbying, community sponsorships, and customer and employee relations expenses. The details of this adjustment can be found in the workpapers to be filed in this proceeding. If this adjustment is not included, test year operating expenses would be overstated.

Q45. Please explain Adjustment OM-21 on Petitioner's Exhibit LEM-2.

A45. Adjustment OM-21 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $28,785 to reflect the increased lease costs in

NIPSCO's Indianapolis office, as a result of the relocation of certain employees from Merrillville. This adjustment was calculated by obtaining the new annual lease amount, deducting for space occupied by the NIPSCO lobbyist because those charges are non-recoverable, and allocating to electric. If this adjustment is not included, test year operating expenses would be understated.

Q46. Please explain Adjustment OM-22 on Petitioner's Exhibit LEM-2.

A46. Adjustment OM-22 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $2,067,189 to reflect increased electric property insurance costs. This adjustment is based on new insurance premiums effective July, 2008. The premium increases are a result of increased electric generation property values as used by insurance underwriters for premium determinations. If this adjustment is not included, test year operating expenses would be understated.

C. Depreciation and Amortization Adjustments

Q47. Please explain Adjustment DA-1 on Petitioner's Exhibit LEM-2.

A47. Adjustment DA-1 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $227,322 to reflect the change in common allocation methodology implemented in the second quarter of the test year. As mentioned above, Mr. Hershberger discusses this change in methodology. If this adjustment is not included, test year operating expenses would be understated.

Q48. Please explain Adjustment DA-2 on Petitioner's Exhibit LEM-2.

A48. Adjustment DA-2 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $9,583,660 to reflect implementation of new depreciation rates on electric and common property. NIPSCO Witness John J. Spanos has performed a comprehensive depreciation study for electric plant and common plant. The adjustment is based upon his proposed depreciation rates. If this adjustment is not included, test year operating expenses would be understated.

Q49. Please explain Adjustment DA-3 on Petitioner's Exhibit LEM-2.

A49. Adjustment DA-3 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $8,256,052 to reflect amortization of the deferral of non-fuel Midwest ISO costs to a regulatory asset beginning August 1, 2006, as approved by this Commission in its June 1, 2005 Order in Cause No. 42685. The amount of total MISO costs deferred to a regulatory asset at December 31, 2007 amounted to $13,990,057. In addition, MISO non-fuel costs to be deferred through the end of the adjustment period are estimated to be $10,778,099. The total amount of the deferral is estimated to be $24,768,156 by year-end 2008. The Company proposes a three-year amortization period. The estimated total of $24,768,156 amortized over a three-year period is $8,256,052 annually and therefore requires an increase in electric amortization expense. Because MISO non-fuel costs will continue to be incurred and deferred as described above beyond the end of 2008, and to ensure recovery of all MISO non-fuel costs, the Company proposes that any difference between the estimated and actual amount of the deferral be included as an adjustment via the RA mechanism mentioned previously and described later in my testimony. Mr. Crum provides a detailed discussion of the RA mechanism. If this adjustment is not included, test year operating expenses would be understated.

Q50. Please explain Adjustment DA-4 on <u>Petitioner's Exhibit LEM-2</u>.

A50. Adjustment DA-4 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $1,979,286 to reflect rate case costs. The Company has estimated a total cost of $5,937,859 for legal, consulting and expert witness testimony and proposes a three-year amortization period. The total estimated cost over a proposed three-year amortization period is $1,979,286, and, therefore, requires an increase in electric amortization expense. This estimate will be updated at the time rebuttal testimony is filed to reflect a more accurate amount and the pro forma adjustment will be adjusted at that time. If this adjustment is not included, test year operating expenses would be understated.

Q51. Please explain Adjustment DA-5 on <u>Petitioner's Exhibit LEM-2</u>.

A51. Adjustment DA-5 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $935,424 to reflect the completion of the amortization of the Pure Air regulatory asset created as a result of the Commission's October 16, 1991 Order in Cause No. 38849-S1. This asset will be fully amortized by the end of the adjustment period and I have therefore eliminated this expense. If this adjustment is not included, test year operating expenses would be overstated.

Q52. Please explain Adjustment DA-6 on <u>Petitioner's Exhibit LEM-2</u>.

A52. Adjustment DA-6 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $40,657 to reflect the change in common allocation methodology in the second quarter of the test year. Mr. Hershberger further discusses this change and the resulting adjustment. If this adjustment is not included, test year operating expenses would be understated.

D. Tax Adjustments

Q53. Please explain Adjustment OTX-1 on <u>Petitioner's Exhibit LEM-2</u>.

A53. Adjustment OTX-1 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $1,045,127 to reflect decreased real estate property taxes as a result of the change in common allocation methodology in the second quarter of the test year. Mr. Hershberger also discusses this change. If this adjustment is not included, test year operating expenses would be overstated.

Q54. Please explain Adjustment OTX-2 on <u>Petitioner's Exhibit LEM-2</u>.

A54. Adjustment OTX-2 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $12,431 to reflect decreased federal excise tax as a result of the change in common allocation methodology in the second quarter of the test year. Mr. Hershberger further discusses this change. If this adjustment is not included, test year operating expenses would be overstated.

Q55. Please explain Adjustment OTX-3 on <u>Petitioner's Exhibit LEM-2</u>.

A55. Adjustment OTX-3 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $98,809 to reflect an increase in the Indiana state sales tax percentage from 6% to 7%. This adjustment was calculated by determining the electric Indiana sales tax expense for 2007 and adjusting it for the increase in the state sales tax rate. If this adjustment is not included, test year operating expenses would be understated.

Q56. Please explain Adjustment OTX-4 on <u>Petitioner's Exhibit LEM-2</u>.

A56. Adjustment OTX-4 on <u>Petitioner's Exhibit LEM-2</u> is to decrease (credit) test year operating expenses in the amount of $18,672 to remove property tax expense for non-utility property. If this adjustment is not included, test year operating expenses would be overstated.

Q57. Please explain Adjustment OTX-5 on <u>Petitioner's Exhibit LEM-2</u>.

A57. Adjustment OTX-5 on <u>Petitioner's Exhibit LEM-2</u> is to increase (debit) test year operating expenses in the amount of $1,257,455 to reflect increased payroll taxes. This adjustment increases payroll taxes for the wage and incentive plan changes discussed in Adjustments OM-5, OM-6, OM-7, OM-8, OM-9, and OM-10. In addition, the adjustment includes an adjustment for payroll taxes related to the increase in taxable base wages for social security tax from $95,200 to $102,000. If this adjustment is not included, test year operating expenses would be understated.

Q58. Please explain Adjustment OTX-6 on Petitioner's Exhibit LEM-2.

A58. Adjustment OTX-6 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $6,467,208 to reflect Utility Receipts Tax ("URT") as calculated by NIPSCO Witness John M. O'Brien. As I previously discussed, URT associated with fuel and purchased power should not be recovered through base rates in order to be consistent with the Company's request to remove the cost of fuel and purchased power from base rates. In Column F of this same schedule, you will see that I have reclassified URT on fuel and purchased power as an increase (credit) to operating revenue of $7,177,052 on line 14. In addition, I have reflected an increase (debit) to fuel and purchased power expenses on line 23 as an adjustment of $7,177,052. These adjustments are made so that the URT on fuel and purchased power will not be recovered through base rates. The adjustments on lines 14 and 23 were calculated by applying the URT rate of 1.40% to the total cost of fuel and purchased power. They are identified as Adjustment OTX-6A in order to differentiate them from Adjustment OTX-6, which is the net effect of an increase (debit) to other tax expense of $709,844 to reflect the URT on the proposed change in revenue requirement and the decrease (credit) of $7,177,052 to other tax expense related to fuel and purchased power described above. The detailed calculation can be seen in Petitioner's Exhibit LEM-3.

Q59. Please explain Adjustment OTX-7 on Petitioner's Exhibit LEM-2.

A59. Adjustment OTX-7 on Petitioner's Exhibit LEM-2 is to increase (debit) test year operating expenses in the amount of $211,218 to reflect Public Utility Fees related to the increased pro forma revenues at present rates. This amount was calculated by applying the current Public Utility Fees rate to the pro forma revenue adjustments. If this adjustment is not included, test year operating expenses would be understated.

Q60. Please explain Adjustment ITX-1 on Petitioner's Exhibit LEM-2.

A60. Adjustment ITX-1 on Petitioner's Exhibit LEM-2 is to decrease (credit) test year operating expenses in the amount of $1,517,683 to reflect lower income taxes. This adjustment is the difference between the test year federal and state income taxes and the Income Taxes Included in Net Operating Income in Petitioner's Exhibit JMO-2 sponsored by Mr. O'Brien. This amount includes the interest synchronization calculation Mr. O'Brien performs, plus the other adjustments he describes. If this adjustment is not included, test year operating expenses would be overstated.

IV. PROPOSED REVENUE INCREASE

Q61. Please explain Adjustment PF-1 on Petitioner's Exhibit LEM-2.

A61. Adjustment PF-1 on Petitioner's Exhibit LEM-2 shows the calculation of the increased gross margin from base rates in the amount of $23,983,452, which is calculated to provide the opportunity to earn an 8.34% return on net original cost rate base of $2,341,480,136. The increased revenue requirement is calculated by determining the requested increase in operating income. The requested level of operating income is determined by applying the proposed rate of return of 8.34% to the net original cost rate base for NIPSCO (shown on page 3 of Petitioner's Exhibit LEM-2). The requested increase in net operating income is $13,996,413. The increase in operating income is then grossed up for: (a) Federal income taxes, (b) State income taxes, (c) URT, (d)

Public Utility Fees, and (e) uncollectible accounts. The resulting proposed increase in revenue requirements is $23,983,452.

Q62. Please explain Adjustment PF-2 on <u>Petitioner's Exhibit LEM-2</u>.

A62. Adjustment PF-2 on <u>Petitioner's Exhibit LEM-2</u> reflects the additional uncollectible accounts expense on the revenue increase by multiplying the proposed increase in revenue requirement by the multiplier of 0.226593%, for an increase in expense of $54,345 at the proposed rates level.

Q63. Please explain Adjustment PF-3 on <u>Petitioner's Exhibit LEM-2</u>.

A63. Adjustment PF-3 on <u>Petitioner's Exhibit LEM-2</u> is a calculation of the URT applicable to the proposed increase in revenue requirements and is calculated by applying the 1.4% rate to the proposed increase of $23,983,452, resulting in an increase of $335,768.

Q64. Please explain Adjustment PF-4 on <u>Petitioner's Exhibit LEM-2</u>.

A64. Adjustment PF-4 on <u>Petitioner's Exhibit LEM-2</u> is a calculation of the Public Utility Fees applicable to the proposed increase in revenue requirements and is calculated by applying the 0.1204% rate to the proposed increase of $23,983,452, resulting in an increase of $28,876.

Q65. Please explain Adjustment PF-5 on <u>Petitioner's Exhibit LEM-2</u>.

A65. Adjustment PF-5 on <u>Petitioner's Exhibit LEM-2</u> is to account for income taxes applicable to the proposed increase in net operating income. It is calculated by applying the Federal income tax rate to the pro forma federal taxable income and the Indiana state income tax rate to the pro forma state taxable income, resulting in an increase of $9,568,050. As Mr.

O'Brien explains, federal and state taxable incomes are not the same due to different deductions.

Q66. Please explain Petitioner's Exhibit LEM-3.

A66. Petitioner's Exhibit LEM-3 consists of a separate page for each income statement adjustment, rate base update and capital structure update. The individual pages present additional detail where needed to further explain the amounts included in Petitioner's Exhibit LEM-2 and discussed individually in my testimony. Where appropriate, the workpapers to be filed in this proceeding provide further detail.

V. NET ORIGINAL COST RATE BASE

Q67. Please explain Petitioner's Exhibit LEM-4.

A67. Petitioner's Exhibit LEM-4, page 1 of 2, quantifies NIPSCO's net original cost rate base as of December 31, 2007, including updates, which I describe later in my testimony. Column B shows the actual rate base as of December 31, 2007, per NIPSCO's books. Column C shows the debit and credit updates to rate base by line item. Column D shows the total net original cost rate base with the rate base updates reflected. Petitioner's Exhibit LEM-4, page 2 of 2, shows a summary of the rate base updates, the detail of which is discussed below.

Q68. Please explain Update RB-1 on Petitioner's Exhibit LEM-4, page 2 of 2.

A68. Update RB-1 on Petitioner's Exhibit LEM-4, page 2 of 2, decreases (credits) utility plant in service in the amount of $175,909,015 to reflect the removal of units at Mitchell, which are being retired. Ms. Odum and Mr. Sweet further discuss the Company's plans regarding Mitchell.

Q69. Please explain Update RB-2 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2.

A69. Update RB-2 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2, decreases (debits) accumulated depreciation reserve in the amount of $178,072,088 to reflect the retirement of Mitchell.

Q70. Please explain Update RB-3 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2.

A70. Update RB-3 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2, decreases (credits) utility plant in service in the amount of $19,395,755 to reflect removal of the Michigan City Generating Station Units 2 and 3, which are being retired. Ms. Odum and Mr. Sweet further discuss the Company's plans regarding Units 2 and 3 at the Michigan City Generating Station.

Q71. Please explain Update RB-4 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2.

A71. Update RB-4 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2, decreases (debits) accumulated depreciation reserve in the amount of $18,096,416 to reflect the retirement of the Michigan City Generating Station Units 2 and 3.

Q72. Please explain Updates RB-5 through RB-10 on <u>Petitioner's Exhibit LEM-4</u>, page 2 of 2.

A72. As discussed in greater detail by Mr. Dehring and NIPSCO Witness Robert Greneman, the Company implemented the FERC Seven Factor Test relating to the electric transmission and distribution facilities as set forth in FERC Order No. 888. This resulted in $108,644,289 of transmission assets being re-classified as distribution assets and

$14,599,077 of distribution assets being re-classified as transmission. This update has no impact on total plant in service values. In addition, the accumulated deprecation and amortization reserves were adjusted. These updates are identified as RB-5 and RB-6. In addition, the Company made updates to rate base to reflect the impact of an error made in performing certain plant retirements and made other adjusting entries to correct assets that had been misclassified as to specific plant account. These updates are identified as RB-7 through RB-10. Mr. Hershberger further discusses these adjustments.

Q73. Please discuss the Deferred Charges shown on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2.

A73. The deferred charges shown on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, relate to the unamortized balance at December 31, 2007 of deferred charges in connection with the (1) Pure Air flue gas desulfurization ("FGD") at the Bailly Generating Station, (2) R. M. Schahfer Generating Station Units 17 and 18, and (3) prepaid pension asset.

Q74. Please explain the Pure Air Deferred Charges on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2.

A74. The Pure Air Deferred Charges on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, in the amount of $526,218 represent the remaining unamortized balance of the regulatory asset established in Cause No. 43188. This asset will be fully amortized by year-end 2008.

Q75. Please explain the Unit 17 Depreciation on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2.

A75. The Unit 17 Depreciation on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, in the amount of $542,928 relates to the deferral of depreciation on Schahfer Unit 17 after it went into service and before entry of the Commission's August 3, 1983 Order in Cause No. 37023 (including Unit 17 in NIPSCO's rate base). Pursuant to the Commission's April 20, 1983 Order in Cause No 37129, the Company was authorized to defer and amortize the deferred depreciation over the remaining life of Schahfer Unit 17. The amount of $542,928 is the unamortized amount of deferred charges at December 31, 2007.

Q76. Have you removed from rate base the unamortized amount of the Schahfer Unit 17 disallowance ordered by the Commission?

A76. Yes, I removed the unamortized amount of the disallowance of $4,334,003, which consists of gross plant of $31,733,655 and accumulated amortization of $27,399,652 as shown on <u>Petitioner's Exhibit LEM-4</u>.

Q77. Please explain the Unit 18 Depreciation and Carrying Charges on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2.

A77. The Unit 18 Depreciation and Carrying Charges on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, in the amounts of $5,206,694 and $16,132,193, respectively, relate to the continuation of Allowance for Funds Used During Construction ("AFUDC") and the deferral of depreciation from the time Schahfer Unit 18 went into service until the time it was included in rate base. In the Commission's July 15, 1987 Order in Cause No. 38045, the Company was authorized to phase-in this unit into rate base. In the Commission's November 27, 1985 Order in Cause No. 37819, the Company was authorized to amortize these deferrals over the remaining life of Schahfer Unit 18. The amount of $21,338,887 reflects the unamortized amount of Schahfer Unit 18 deferred charges at December 31, 2007.

Q78. Please explain the Prepaid Pension Asset on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2.

A78. The Prepaid Pension Asset on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, reflects the electric portion of prepaid pension costs in the amount of $25,705,004.

Q79. Please explain the Materials & Supplies on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2?

A79. The Materials & Supplies on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, reflects the balance of the electric materials and supplies at December 31, 2007 per the Company's books and records in the amount of $46,907,735.

Q80. Please explain the Production Fuel on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2?

A80. The Production Fuel on <u>Petitioner's Exhibit LEM-4</u>, page 1 of 2, reflects the balance of production fuel at December 31, 2007 per the Company's books and records in the amount of $57,566,559.

VI. <u>CAPITAL STRUCTURE</u>

Q81. Please explain <u>Petitioner's Exhibit LEM-5</u>.

A81. <u>Petitioner's Exhibit LEM-5</u>, page 1 of 3, shows the computation of the overall weighted cost of capital for NIPSCO. Column A shows the components of capital, including common equity, long term debt, customer deposits, deferred income taxes, postretirement liability, and Post 1970 ITC. Column B shows the "as adjusted" amount for each component. Column C shows the percent each component represents of the total capitalization. Column D shows the cost for each component. Column E shows the weighted average cost for each component. The cost of Post-1970 ITC represents the weighted average cost of investor supplied capital, which is computed in the second table on Page 1 of 3 on Petitioner's Exhibit LEM-5. The total of Column E of 8.34% is the Company's weighted cost of capital. Petitioner's Exhibit LEM-5, page 2 of 3, shows the December 31, 2007 actual capital structure and the adjustments made to arrive at the capital structure reflected on page 1. Column B shows the actual December 31, 2007 balances. Columns C and D show the updates to capital structure. Column E shows the reference to these updates, the detail of which is discussed below. Column F shows the adjusted balance. Column G reflects the percent of the total capitalization for each component. Column H shows the cost for each component. Column I shows the weighted average cost for each component. Petitioner's Exhibit LEM-5, Page 3 of 3, is a detailed schedule of long-term debt, reflecting actual debt outstanding at December 31, 2007 as well as debt issued in June 2008. Column A reflects the interest rate associated with each debt issue. The individual debt issues are listed in Column B. Columns C and D reflect the dates of issuance and dates of maturity, respectively. The principal amount outstanding is shown in Column E. Column F reflects the interest requirement, which is the principal amount (Column E) multiplied by the interest rate (Column A). Column G reflects the overall cost of debt, which flows to page 1 of 3.

Q82. What cost rate has been utilized for Common Equity on Petitioner's Exhibit LEM-5?

A82. The cost rate for Common Equity on Petitioner's Exhibit LEM-5, page 1 of 3, is 12%. The cost rate was determined and provided by NIPSCO Witness Paul R. Moul.

Q83. What cost rate has been utilized for Long-Term Debt on Petitioner's Exhibit LEM-5?

A83. The cost rate for Long-Term Debt on Petitioner's Exhibit LEM-5, page 1 of 3, is 6.56%, which is based on the debt outstanding at December 31, 2007 plus debt issued in June 2008. The update for the June 2008 debt issue is shown on Petitioner's Exhibit LEM-5, page 2 of 3, and is discussed below.

Q84. What cost rate has been utilized for Customer Deposits as shown on Petitioner's Exhibit LEM-5?

A84. The cost rate for Customer Deposits on Petitioner's Exhibit LEM-5, page 1 of 3, is 6%, which is the interest rate on customer deposits as provided for in the Commission's rules.

Q85. Please explain Post-Retirement Liability on Petitioner's Exhibit LEM-5?

A85. The Post-Retirement Liability on Petitioner's Exhibit LEM-5 reflects the Statement of Financial Accounting Standard No. 106 ("SFAS 106") OPEB accrual expense in excess of the cash basis or Pay-As-You-Go Method ("PAYGO"). In accordance with the Commission's June 11, 1997 Order in Cause No. 40688, the Commission found that, commencing February 1, 1998, NIPSCO was authorized to include its SFAS 106 expense in its cost of service for ratemaking purposes. Additionally, the Commission authorized NIPSCO to commence the amortization of the expense that had been deferred as a regulatory asset pursuant to the Commission's December 30, 1992 Order in Cause No. 39348. The Commission also found that the cumulative difference between SFAS 106 expense and the cash outlay for post-retirement benefits other than pensions should be treated as zero cost capital. I have computed this adjustment by starting with the SFAS 106 gross accrual amounts (which includes all of the expenses deferred in the regulatory asset prior to February 1, 1997), then reducing for amounts paid as calculated under the PAYGO, then reducing further by the unamortized balance of the regulatory asset, then finally reducing by the capitalized portion. In this fashion, the amount reflected as zero cost capital is essentially equivalent to the amount that would have been recorded as SFAS 106 expense in excess of the PAYGO since February 1, 1997, together with the amount of the original regulatory asset that has been amortized, all as provided for in the Commission's Order in Cause No. 40688.

Q86. What updates were made to the capital structure for Step One?

A86. Adjustments CS-1, CS-2, and CS-3 were made with respect to common equity, long-term debt, and deferred taxes, respectively. These adjustments are shown on Petitioner's Exhibit LEM-5, page 2 of 3, and are discussed below.

Q87. Please explain Adjustment CS-1 on Petitioner's Exhibit LEM-5.

A87. Adjustment CS-1 on Petitioner's Exhibit LEM-5 is an increase (credit) in common equity in the amount of $1,168,208, made to reflect the exclusion of Other Comprehensive Income ("OCI") from the December 31, 2007 balance. This adjustment to common equity is necessary as the OCI is related to the market impact of derivative activity which is non cash in nature. Mr. Moul provides further discussion of this item.

Q88. Please explain Adjustment CS-2 on Petitioner's Exhibit LEM-5.

A88. Adjustment CS-2 on Petitioner's Exhibit LEM-5 is an increase (credit) in long-term debt in the amount of $160,000,000, made to reflect the long-term debt issued by NIPSCO to NiSource Finance Corporation in June 2008. This debt was issued as a replacement for the 2007 redemption of NIPSCO's preferred stock as well as scheduled maturities of medium-term notes. The Commission approved the issuance of these notes in its February 6, 2008 Order in Cause No. 43370. This issue consisted of two components, and the capital structure reflects the interest rate applicable to each portion of the debt issue, totaling $160,000,000. NIPSCO Witness Vincent V. Rea discusses the financing and interest rate determination.

Q89. Please explain Adjustment CS-3 on Petitioner's Exhibit LEM-5.

A89. Adjustment CS-3 on Petitioner's Exhibit LEM-5 is an increase (credit) to the capital structure in the amount of $795,992 in order to exclude the deferred taxes related to the OCI adjustment to common equity for the derivative activity discussed previously.

VII. TRACKER MECHANISMS

Q90. Is NIPSCO proposing any tracking mechanisms in this proceeding?

A90. Yes, NIPSCO is proposing the continuation of its FAC, EERM, and Environmental Cost Recovery Mechanism ("ECRM") tracking mechanisms. As part of this rate case proceeding, NIPSCO seeks approval for a change in the frequency of the filing of its EERM to semi-annual from annual and for approval for use of the EERM to pass back to ratepayers the net proceeds realized through the sale of emissions allowances, as well as any costs incurred to purchase allowances. In addition to the continuation of these existing tracking mechanisms with the requested modifications, NIPSCO is proposing the RA tracking mechanism to provide for (1) recovery and pass-through of certain regional transmission organization costs and revenues; (2) recovery of purchased power costs; and (3) the allocation of net revenues from NIPSCO's off-system sales. As described previously in REV-8 and FP-5, NIPSCO proposes that 100% of future off-system sales margins be passed back to the ratepayers up to $15 million annually. NIPSCO requests that any off-system sales margins generated beyond the amount of $15 million annually will be shared, with 80% going to ratepayers. In addition, as noted in Adjustment REV-10, the Company proposes that 100% of transmission revenues from certain MISO schedules be passed back to ratepayers via this RA mechanism. Mr. Crum further describes this mechanism. I describe the schedules that will be utilized for the proposed RA tracking mechanism below.

Q91. Please describe <u>Petitioner's Exhibit LEM-10</u>.

A91. <u>Petitioner's Exhibit LEM-10</u> shows the sample schedules proposed to be utilized with the proposed RA tracking mechanism. NIPSCO proposes that this mechanism be filed quarterly concurrent with the quarterly FAC filings. The RA is intended to be utilized to recover purchased power and capacity costs, all non-FAC MISO charges / (credits) and to pass through off-system sales net revenues. <u>Petitioner's Exhibit LEM-10</u> contains sample schedules with hypothetical dollar amounts and allocation percentages for hypothetical dates in order to demonstrate how Petitioner proposes this mechanism will function. Petitioner proposes that a quarterly estimate be prepared in order to bill customers and that a reconciliation of costs recovered to actual costs incurred be performed in a subsequent quarter, much like the process used for the existing FAC mechanism. Petitioner's Exhibit LEM-10, page 1 of 9, is the summary page showing the estimated costs / (credits) to be included in the RA and the resulting factors to be billed to customers. Lines 1 and 2 show capacity purchases and MISO charges that are demand allocated, respectively. Both of these line items will be allocated to NIPSCO's proposed rate schedules based on demand factors. Line 3 is the total of Lines 1 and 2. Lines 4, 5 and 6 show energy purchases, all other non-FAC MISO charges / (credits) and off-system sales net revenues, respectively. Each of these three line items will be allocated to NIPSCO's proposed rate schedules based on energy. Line 7 is the sum of the Lines 4, 5 and 6. Lines 8 through 23 show the allocation of demand allocated and energy allocated charges by rate. Lines 24 through 39 show the total combined charges plus the variance from previous periods. Line 39, column L shows the total net charges / (credits) to be billed to customers by rate schedule and column M reflects the factor for each rate schedule. Column N is the billing factor adjusted for URT and Adjusted Gross Income Tax. Petitioner's Exhibit LEM-10, pages 2 through 5 of 9, reflect the detail behind Page 1 of 9, Lines 1, 2, 4, 5, and 6, as described above. Petitioner's Exhibit LEM-10, page 6 of 9, shows the charges recovered for the quarter less the amount of prior period variance to be recovered, compared to actual charges for the quarter, and the new resulting variance. Petitioner's Exhibit LEM-10, page 7 of 9, shows the detailed reconciliation and allocation of actual costs based on demand and energy as explained above. Petitioner's Exhibit LEM-10, page 8 of 9, shows actual costs / (credits) by type. Petitioner's Exhibit

LEM-10, page 9 of 9, shows a detailed list of MISO charge-types. For simplicity purposes, this reconciliation is shown for one of the three months in the quarter. The remaining two months would be shown on similar pages.

Q92. Please describe how the EERM and ECRM tracking mechanisms will be impacted upon the issuance of an Order in this proceeding.

A92. Prior to the issuance of an Order in this proceeding, the ECRM and EERM tracker filings will be separated to delineate those costs and expenses that have been included in the requested revenue requirement in this proceeding from expenditures and operating expenses not reflected in the revenue requirement for this proceeding. Upon the issuance of an Order in this proceeding, new tariff tracker schedules will be utilized to remove the impact of the costs and expenses reflected in new rates to ensure that there is no duplication in revenue collection. These tracking mechanisms will continue to be utilized for future Qualified Pollution Control Property ("QPCP") not reflected in rate base and for future operating costs associated with QPCP expenditures, in accordance with the Commission's prior orders in Cause Nos. 42150 (11/26/2002) and 43188 (7/3/2007). In addition, Petitioner is requesting in this proceeding that these mechanisms be expanded to make them applicable for costs associated with additional and future environmental regulatory requirements and also requests that both tracker filings may be made on a semi-annual basis.

VIII. STEP TWO – SUGAR CREEK FACILITY

Q93. Please explain the Company's proposed Step Two rate increase request associated with the recently acquired Sugar Creek generating facility?

A93. On May 28, 2008 in Cause No. 43396, the Commission issued an order granting NIPSCO a Certificate of Public Convenience and Necessity ("CPCN") to acquire the Sugar Creek generating facility (the "Sugar Creek Facility") ("CPCN Order"). NIPSCO acquired the equity interests in Sugar Creek Power Company, LLC on May 30, 2008. The prior owners of Sugar Creek committed the Sugar Creek Facility to the PJM Interconnection, LLC ("PJM") market through May 31, 2010. In the CPCN Order, the Commission found that the Sugar Creek Facility could not be deemed to be "in service" for regulatory purposes while it is committed to the PJM market. The Company is requesting authorization of a second adjustment (the "Step Two Adjustment") to NIPSCO's basic rates and charges that will be implemented when the Sugar Creek Facility is no longer committed to PJM and is dispatched into MISO.

Q94. What adjustment to NIPSCO's rates is the Company proposing to reflect in the Step Two Adjustment?

A94. The Step Two Adjustment will increase NIPSCO's rates to reflect the additional costs NIPSCO incurs to own and operate the Sugar Creek Facility for the benefit of NIPSCO's customers, including taxes and O&M expenses. NIPSCO also has a pending proceeding in Cause No. 43396 S-1 in which it is seeking authority to defer carrying charges and depreciation expense on its investment in the Sugar Creek Facility from the date of the acquisition through the date when a return on and of NIPSCO's investment in the Sugar

Creek Facility is reflected in NIPSCO's rates. NIPSCO has proposed that, if such deferral authority is granted, the Step Two Adjustment include an amortization of the deferred amounts as an above-the-line expense and inclusion of the unamortized amount in NIPSCO's rate base. The Step Two Adjustment will also include a return on NIPSCO's investment in the Sugar Creek Facility. Mr. Shambo addresses the policy and structure of the Step Two Adjustment.

Q95. Please summarize your testimony for the Step Two Adjustment.

A95. NIPSCO requires a net increase in base rate revenues of $80,723,642 in the Step Two Adjustment to recover the revenue requirement associated with the Sugar Creek Facility. This amount is calculated to provide the opportunity to earn additional net operating income of $30,619,764. Support for the Step Two Adjustment is presented in Petitioner's Exhibits LEM-6 through LEM-9.

Q96. Please describe the exhibits relating to Step Two.

A96. Petitioner's Exhibit LEM-6, page 1 of 2, is a statement of Sugar Creek net operating income for the test year ended December 31, 2007 on a pro forma basis and adjusted for the proposed revenue increase of $80,723,642. Petitioner's Exhibit LEM-6, page 2 of 2, shows the calculation of the proposed Sugar Creek revenue increase. Petitioner's Exhibit LEM-7 consists of a separate page for each Sugar Creek income statement adjustment and rate base and capital structure update. Petitioner's Exhibit LEM-8, page 1 of 2, shows the Sugar Creek original cost rate base and a summary of the proposed updates. Petitioner's Exhibit LEM-8, page 2 of 2, shows the detail of the proposed updates.

Petitioner's Exhibit LEM-9, page 1 of 3, shows the computation of the overall weighted cost of capital for Step Two with the inclusion of additional adjustments as discussed below. Column A shows the components of capital, including common equity, long term debt, customer deposits, deferred income taxes, postretirement liability, and Post 1970 ITC. Column B shows the "as adjusted" amount for each component of capital, reflecting the Step One updates described earlier in my testimony and the Step Two updates, which are described later in my testimony. Column C reflects the percent each line item represents of the total capitalization. Column D reflects the cost for each component and Column E shows the weighted average cost for each line item. The total of Column E of 8.43% is the Company's weighted cost of capital, reflecting the Sugar Creek facility in rate base. Petitioner's Exhibit LEM-9, Page 2 of 3, shows the December 31, 2007 capital structure with adjustments. Column B shows the actual December 31, 2007 balances, Columns C and D reflect the updates to capital structure for Step Two. These updates are identified as SCCS-1 and SCCS-2 in Column E and are further discussed below. Column F shows the pro forma balance. Column G reflects the percent each line item represents of the total capitalization. Column H shows the cost for each component and Column I shows the weighted average cost for each line item. Petitioner's Exhibit LEM-9, Page 3 of 3, is a detailed schedule of long-term debt, reflecting actual debt outstanding at December 31, 2007 as well as debt issued in June 2008 and anticipated debt issues associated with the financing of the acquisition of the Sugar Creek facility. Column A reflects the interest rate associated with each debt issue. The individual debt issues are listed in Column B. Columns C and D reflect the dates of issuance and dates of maturity, respectively. The principal amount outstanding is shown in Column E. Column F reflects the interest requirement, which is the principal amount (Column E) multiplied times the interest rate (Column A). Column G reflects the overall cost of debt, which flows to page 1 of 3.

Q97. Please explain Adjustment SCOM-1 on Petitioner's Exhibit LEM-6, page 1 of 2.

A97. Adjustment SCOM-1 on Petitioner's Exhibit LEM-6, page 1 of 2, is to increase (debit) to operating expenses in the amount of $3,572,954 for the variable production expense required to operate the Sugar Creek Facility. Mr. Pack further describes the calculation of this adjustment.

Q98. Please explain Adjustment SCOM-2 on Petitioner's Exhibit LEM-6, page 1 of 2.

A98. Adjustment SCOM-2 on Petitioner's Exhibit LEM-6, page 1 of 2, is to increase (debit) to operating expenses in the amount of $5,815,467 for other O&M expenses, which consists of fixed operating expenses for the plant as well as property insurance related to the Sugar Creek Facility. Mr. Pack further describes the calculation of this adjustment.

Q99. Please explain Adjustment SCDA-1 on Petitioner's Exhibit LEM-6, page 1 of 2.

A99. Adjustment SCDA-1 on Petitioner's Exhibit LEM-6, page 1 of 2, is the increase (debit) to electric operating expenses for $11,236,857 for the annual depreciation/amortization expense of the Sugar Creek Facility. This adjustment is based on the depreciation study performed by NIPSCO Witness John Spanos.

Q100. Please explain Adjustment SCDA-2 on Petitioner's Exhibit LEM-6, page 1 of 2.

A100. Adjustment SCDA-2 on Petitioner's Exhibit LEM-6, page 1 of 2, is the increase (debit) to electric amortization expenses for $2,694,743 for the amortization of the depreciation/amortization expense of the Sugar Creek Facility proposed to be deferred beginning June 1, 2008 through May 31, 2010. The amortization amount is calculated by adding the annual depreciation/amortization as described in Adjustment SCDA-1 for the two annual periods. I have reduced the amortization by $4,500,000 (the annual depreciation on the Mitchell plant) for two years, pursuant to the FAC71 Settlement. This results in a total deferred amount of $13,473,714. When amortized over a five-year period, the annual expense is $2,694,743.

Q101. Please explain Adjustment SCDA-3 on Petitioner's Exhibit LEM-6, page 1 of 2.

A101. Adjustment SCDA-3 on Petitioner's Exhibit LEM-6, page 1 of 2, is the increase (debit) to electric amortization expenses for $8,529,686 for the amortization of the deferred carrying charges on the Sugar Creek facility. This amount represents the amount of carrying charges proposed to be deferred beginning June 1, 2008, calculated by multiplying the $328,064,833 gross utility plant in service value by a rate of 6.5% for two years and amortized over a five-year period.

Q102. How did you calculate the utility plant in service value for the Sugar Creek Facility?

A102. NIPSCO actually paid $329,672,739 to acquire Sugar Creek. However, I have deducted interest expense and materials and supplies inventory recorded on NIPSCO's books and records, as well as miscellaneous other current assets and liabilities because these amounts should not be included in utility plant in service. Further adjustment may be required because the purchase agreement requires a true-up for working capital. As soon as the information is available, Petitioner will true-up the final purchase price, including the filing of amended exhibits, to appropriately reflect the correct amount for purposes of the rate base updates. This true-up will likely change the materials and supplies inventory balance, which is described in Update SCRB-2.

Q103. Why are you using a 6.5% rate to calculate carrying charges and using a five year amortization period?

A103. That rate is consistent with the terms of the FAC71 Settlement.

Q104. Please explain Adjustment SCOTX-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2.

A104. Adjustment SCOTX-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2, is the increase (debit) to property taxes for $1,132,243 for the Sugar Creek Facility. This amount was provided by Mr. O'Brien, who discusses it further. If this adjustment is not made, property tax expense will be understated.

Q105. Please explain Adjustment SCPF-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2.

A105. Adjustment SCPF-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2, shows the calculation of the increased revenue requirement for NIPSCO necessary to provide an 8.43% return on net original cost rate base of $363,223,758. The increased revenue requirement is calculated by determining the requested increase in operating income. The requested operating income increase is determined by applying the proposed rate of return of 8.43% to the net original cost rate base for Sugar Creek shown on page 2 of <u>Petitioner's Exhibit</u>

LEM-6. The increase in operating income is then grossed up for the following taxes and fees: (a) Federal income taxes, (b) State income taxes, (c) URT, (d) Public Utility Fees, and (e) Uncollectible accounts. The proposed increase in revenue requirements is $80,723,642.

Q106. Please explain Adjustment SCOM-3 on Petitioner's Exhibit LEM-6, page 1 of 2.

A106. Adjustment SCOM-3 on Petitioner's Exhibit LEM-6, page 1 of 2, reflects the additional uncollectible accounts expense on the revenue increase by multiplying the proposed increase in revenue requirement by the multiplier of 0.226593%, for an increase in expense of $182,914 at the proposed rates level.

Q107. Please explain Adjustment SCOTX-2 on Petitioner's Exhibit LEM-6, page 1 of 2.

A107. Adjustment SCOTX-2 on Petitioner's Exhibit LEM-6, page 1 of 2, is a calculation of the Public Utility Fees applicable to the proposed increase in revenue requirements and is calculated by applying the 0.1204% rate to the proposed increase of $80,723,642, resulting in an increase of $97,191.

Q108. Please explain Adjustment SCOTX-3 on Petitioner's Exhibit LEM-6, page 1 of 2.

A108. Adjustment SCOTX-3 on Petitioner's Exhibit LEM-6, page 1 of 2, is a calculation of the URT applicable to the proposed increase in revenue requirements and is calculated by applying the 1.4% rate to the proposed increase of $80,723,642, resulting in an increase of $1,130,131.

Q109. Please explain Adjustment SCITX-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2.

A109. Adjustment SCITX-1 on <u>Petitioner's Exhibit LEM-6</u>, page 1 of 2, is the calculation of the income taxes applicable to the proposed increase in net operating income. It is calculated by applying the federal and state income tax rates to the proposed increase in net operating income for federal and state income tax purposes, which results in increased expense of $15,711,692.

Q110. Please explain Update SCRB–1 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2.

A110. Update SCRB-1 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2, is the update to increase (debit) plant in service in the amount of $328,064,833 to reflect the plant acquired in the purchase of the Sugar Creek Facility. Messrs. Sweet and Shambo discuss the purchase of the Sugar Creek Facility.

Q111. Please explain Update SCRB–2 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2.

A111. Update SCRB-2 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2, is the update to increase (debit) materials and supplies in the amount of $1,510,497 to reflect the inventory acquired as part of the purchase of the Sugar Creek Facility. Mr. Sweet discusses the purchase of the Sugar Creek Facility. This inventory balance is subject to change following the final working capital true-up described above.

Q112. Please explain Update SCRB-3 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2.

A112. Update SCRB-3 on <u>Petitioner's Exhibit LEM-8</u>, page 2 of 2, is the update to increase (credit) accumulated depreciation and amortization for $22,473,714 for the two years of depreciation/amortization expense for the Sugar Creek Facility ($11,236,857) per year as described in Adjustment SCDA-1) that will have been recorded as of June 1, 2010, when the commitment to the PJM market is scheduled to expire.

Q113. Please explain Update SCRB-4 on Petitioner's Exhibit LEM-8, page 2 of 2.

A113. Update SCRB-4 on Petitioner's Exhibit LEM-8, page 2 of 2, is the update to increase (debit) deferred charges for $13,473,714 for the deferral of the accumulated depreciation and amortization for two years as described in Update SCRB-3, net of the $4,500,000 annual exclusion deemed to be representative of the annual depreciation expense for the Mitchell generating facility. Such deferral treatment is currently pending before the Commission in Cause No. 43396 S-1.

Q114. Please explain Update SCRB-5 on Petitioner's Exhibit LEM-8, page 2 of 2.

A114. Update SCRB-5 on Petitioner's Exhibit LEM-8, page 2 of 2, is the update to increase (debit) deferred charges for $42,648,428 for the carrying charges on the Sugar Creek Facility for the two year period of June 1, 2008 to May 31, 2010. This amount represents the amount of carrying charges to be deferred beginning June 1, 2008 through May 31, 2010, calculated by multiplying the $328,064,833 purchase price of the facility by a rate of 6.5% for each year. Such deferral treatment is currently pending before the Commission in Cause No. 43396 S-1.

Q115. What updates were made to the Capital Structure for the Step Two Adjustment?

A115. In addition to the changes to the capital structure described in Step One, Adjustments SCCS-1 and SCCS-2 were made with respect to common equity and long-term debt, respectively, related to the funding of the acquisition of the Sugar Creek Facility. These adjustments are shown on <u>Petitioner's Exhibit LEM-9</u>, page 2 of 3, and are discussed below.

Q116. Please explain Update SCCS-1 on <u>Petitioner's Exhibit LEM-9</u>, page 2 of 3.

A116. Update SCCS-1 on <u>Petitioner's Exhibit LEM-9</u>, page 2 of 3, is an increase (credit) in common equity of $140,000,000, made to reflect the expected earnings to be retained by the Company and used to complete the funding of the Sugar Creek acquisition.

Q117. Please explain Update SCCS-2 on <u>Petitioner's Exhibit LEM-9</u>, page 2 of 3.

A117. Update SCCS-2 on <u>Petitioner's Exhibit LEM-9</u>, page 2 of 3, is an increase (credit) in long-term debt of $120,000,000, made to reflect the anticipated issue of intercompany long-term debt by NIPSCO to NiSource Finance Corporation, pending approval by the Commission of a financing petition filed August 26, 2008. This debt issue will be used as partial funding of the Sugar Creek acquisition and will replace temporarily used money pool financing. Mr. Rea discusses the financing and interest rate determination.

Q118. What cost rate has been utilized for Common Equity on <u>Petitioner's Exhibit LEM-9</u>?

A118. The cost rate for Common Equity on <u>Petitioner's Exhibit LEM-9</u>, page 1 of 3, is 12%. The cost rate was determined and provided by Mr. Moul.

Q119. What cost rate has been utilized for Long-Term Debt on <u>Petitioner's Exhibit LEM-9</u>?

A119. The cost rate for Long-Term Debt on <u>Petitioner's Exhibit LEM-9</u>, page 1 of 3, is 6.55%, which is based on the actual cost of debt outstanding at December 31, 2007 plus the cost of debt issued in June 2008, plus the estimated cost of debt to be issued related to the financing of the Sugar Creek acquisition as described above. The update for this anticipated debt issue is shown in Petitioner's Exhibit LEM-9, page 3 of 3.

Q120. Does this conclude your prepared direct testimony?

A120. Yes, it does.

VERIFICATION

I, Linda E. Miller, Executive Director, Rates and Regulatory Finance for NiSource Inc., affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Linda E. Miller

Date: August 20, 2008

INDS01 NKK 1055761

Northern Indiana Public Service Company
Statement of Operating Income
Actual, Pro Forma and Proposed
For the Twelve Month Period Ending December 31, 2007

Line No.	Description	Actual	Pro Forma Adjustments Increases (Decreases)	Ref.	Pro Forma Results Based on Current Rates	Pro Forma Adjustments Increases (Decreases)	Ref	Pro Forma Results Based on Proposed Rates
	A	B	C	D	E	F	G	H
1	**Operating Revenue**							
2	Revenue	$ 1,359,522,750			$ 1,400,964,753	23,983,452	PF-1	$ 1,424,948,205 *
3	Abnormal Weather		(14,604,146)	REV - 1				
4	EDR Revenue Imputation		1,432,424	REV - 2				
5	Special Contract Revenue Imputation		80,082,674	REV - 3				
6	FAC 71 Settlement		33,500,000	REV - 4				
7	Non-recurring Revenue Financial transactions		(2,203,737)	REV - 5				
8	Major Industrial Contract Changes (Metal Melters)		(804,136)	REV - 6				
9	Unbilled		10,955,615	REV - 7				
10	Off-System Sales		(50,400,058)	REV - 8				
11	2007 Emission Allowance Revenue		(11,790,599)	REV - 9				
12	2007 Transmission Revenue		(4,726,034)	REV - 10				
13	**Add**							
14	Utility Receipts Tax (related to fuel and purchased power)		-			7,177,052	OTX-6A	7,177,052
15	Total Operating Revenue	$ 1,359,522,750	$ 41,442,003		$ 1,400,964,753	$ 31,160,504		$ 1,432,125,257
16	**Fuel and Purchased Power**	$ 548,972,918			$ 524,316,389			$ 524,316,389
17	Fuel Related to Operating Revenue Adjustments		(3,683,450)	FP - 1				
18	Fuel Related to Operating Revenue (Metal Melters)		(628,813)	FP - 2				
19	Mobile Fuel Handling Expense		100,891	FP - 3				
20	Gas and Diesel		840,335	FP - 4				
21	Off-System Sales		(21,285,492)	FP - 5				
22	**Add**							
23	Utility Receipts Tax (related to fuel and purchased power)		-			$ 7,177,052	OTX-6A	$ 7,177,052
24	Total Fuel and Purchased Power	$ 548,972,918	$ (24,656,529)		$ 524,316,389	$ 7,177,052		$ 531,493,441
25	**Gross Margin**	$ 810,549,832	$ 66,098,532		$ 876,648,364	$ 23,983,452		$ 900,631,816
26	**Operations and Maintenance Expenses**	$ 299,413,573			$ 341,064,887			$ 341,064,887
27	Production Expenses (Contractors)		1,006,684	OM - 1				
28	Variable Production Expenses		4,001,238	OM - 2				
29	Pension		5,762,558	OM - 3				
30	FAS No. 106 Other Post Retirement Benefits		5,762,460	OM - 4				
31	Wage Increases		5,083,259	OM - 5				
32	Incentive Compensation		(916,284)	OM - 6				
33	Workforce Aging		3,925,207	OM - 7				
34	Staffing Vacancies		5,016,101	OM - 8				
35	Staffing Additions		6,413,789	OM - 9				
36	Safety Program		448,589	OM - 10				
37	EEI Lobbying Expenses		(55,425)	OM - 11				
38	Goodwill Advertising		(60,063)	OM - 12				
39	Uncollectible Accounts		(200,000)	OM - 13		54,345	PF - 2	54,345
40	U.S. Postage Increase		71,796	OM - 14				
41	Gas & Diesel		799,403	OM - 15				
42	Tree Trimming Expense		2,078,499	OM - 16				
43	NiSource Corporate Allocations (NCSF)		(2,318,771)	OM - 17				
44	NIPSCO Common Allocations		3,187,121	OM - 18				
45	Advertising		(366,293)	OM - 19				
46	Selected Payments		(84,528)	OM - 20				
47	Indy Office Rent		28,785	OM - 21				
48	Property Insurance		2,087,189	OM - 22				
49	Total Operations and Maintenance	$ 299,413,573	$ 41,651,314		$ 341,064,887	$ 54,345		$ 341,119,232
50	**Depreciation Expense**	$ 176,244,660			$ 186,055,642	$ -		$ 186,055,642
51	Depreciation Expense (Common Allocation)		227,322	DA - 1				
52	Depreciation Expense New Rates		9,583,660	DA - 2				
53	**Total Depreciation Expense**	$ 176,244,660	$ 9,810,982		$ 186,055,642	$ -		$ 186,055,642

*** Operating Revenue at Proposed Rates (Line 2, Column H) excludes Utility Receipts Tax on fuel and purchased power.**

Line No.	Description		Actual		Pro Forma Adjustments Increases (Decreases)	Ref.		Pro Forma Results Based on Current Rates		Pro Forma Adjustments Increases (Decreases)	Ref		Pro Forma Results Based on Proposed Rates
	A		B		C	D		E		F	G		H
54	**Amortization Expense**	$	15,673,481				$	25,014,052	$	-		$	25,014,052
55	Amortization Expense (Reg Assets) - MISO				8,256,052	DA - 3							
56	Amortization Expense (Reg Assets) - Rate Case				1,979,286	DA - 4							
57	Amortization Expense (Reg Assets) - Pure Air				(935,424)	DA - 5							
58	Amortization Expense - Computer Software				40,657	DA - 6							
59	**Total Amortization Expense**	$	15,673,481	$	9,340,571		$	25,014,052	$	-		$	25,014,052
60	**Taxes**												
61	**Taxes Other than Income**	$	60,625,916				$	54,649,960				$	54,649,960
62	Real Estate/Personal Property Tax - Common Allocation				(1,045,127)	OTX - 1							
63	Federal Excise Tax - Common Allocation				(12,431)	OTX - 2							
64	State Sales Tax- Increase from 6% to 7%				98,809	OTX - 3							
65	Property Tax Expense - NonUtility				(18,672)	OTX - 4							
66	Payroll Tax				1,257,455	OTX - 5							
67	Indiana Utility Receipts Tax				(6,467,208)	OTX - 6				335,768	PF - 3		335,768
68	Public Utility Fee				211,218	OTX - 7				28,876	PF - 4		28,876
69	Total Taxes Other Than Income	$	60,625,916	$	(5,975,956)		$	54,649,960	$	364,644		$	55,014,604
70	**Income Taxes**												
71	Federal and State Taxes	$	90,098,476	$	(1,517,683)	ITX - 1	$	88,580,793	$	9,568,050	PF - 5	$	98,148,843
72	Total Taxes	$	150,724,392	$	(7,493,639)		$	143,230,753	$	9,932,694		$	153,163,447
73	Total Operating Expenses	$	642,056,106	$	53,309,228		$	695,365,334	$	9,987,039		$	705,352,373
74	**Required Net Operating Income**	$	168,493,726	$	12,789,304		$	181,283,030	$	13,996,413		$	195,279,443

*** Operating Revenue at Proposed Rates (Line 2, Column H) excludes Utility Receipts Tax on fuel and purchased power.**

Northern Indiana Public Service Company
Calculation of Proposed Revenue Increase
Based on Pro Forma Operating Results
Original Cost Rate Base Estimated at December 31, 2007

Line No.	Description	Revenue Deficiency
1	Net Original Cost Rate Base	$ 2,341,480,136
2	Rate of Return	8.34%
3	Required Net Operating Income	195,279,443
4	Pro Forma Net Operating Income	181,283,030
5	Increase in Net Operating Income (NOI Shortfall)	13,996,413
6	Effective Incremental RevenueINOI Conversion Factor	58.36%
7	Increase in Revenue Requirement (Based on Net Original Cost Rate Base) (Line 5 / Line 6)	$ 23,983,452

8	One		1.000000			
9	Less: Public Utility Fee		0.001204			
10	Less: Bad Debt		0.002266			
11	One Less PUF, IURT, Bad Debt			0.996530		
12	One	1.000000				
13	Less: Public Utility Fee	0.014000				
14	Taxable Adjusted Gross Income Tax		0.996530			
15	Adjusted Gross Income Tax Rate		0.085000			
16	Adjusted Gross Income Tax			0.084705		
17	Indiana Apportionment		0.996530			
18	Indiana State Income Tax Rate		0.085000			
19	Effective Indiana Income Tax Rate			0.084705		
20	Line 12 less line 18 less line 21 less line 22				0.897825	
21	One			1.000000		
22	Less: Federal Income Tax Rate			0.350000		
23	One Less Federal Income Tax Rate				0.650000	
24	Effective Incremental Revenue / NOI Conversion Factor					58.36%

Northern Indiana Public Service Company
Requested Revenue Increase Reconciliation
For the Twelve Month Period Ended December 31, 2007

Line No.	Description	Margin at Present Rates	Adjustment to Base Rates	Margin at Proposed Rates
	A	B	C	D
1	Base Revenue (less cost of fuel)	$ 836,907,692	$ 23,983,452	$ 860,891,144
2	Add: ECRM	$ -	$ 25,627,423	$ 25,627,423
3	Add: EERM	$ -	$ 14,113,249	$ 14,113,249
4	Adjusted Base Revenue (less cost of fuel)	$ 836,907,692	$ 63,724,124	$ 900,631,816
5	Riders / Trackers / Credit:			
6	ECRM	$ 25,627,423	$ (25,627,423)	$ -
7	EERM	$ 14,113,249	$ (14,113,249)	$ -
8	Proposed:			
9	Total Riders/Trackers	$ 39,740,672	$ 39,740,672	$ -
10	Total Margin	$ 876,648,364	$ 23,983,452	$ 900,631,816
11	Net Increase/(Decrease) in Base Rate Revenue		$ 23,983,452	
12	Total Margin	$ 876,648,364	$ 23,983,452	$ 900,631,816
13	Net Customer Bill Impacts, Net Increase (Decrease)		$ 23,983,452	

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 1

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to reflect revenue levels under normal weather conditions.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	$ (14,604,146)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 2

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect Economic Development Rider rates charged to customers in economic development contracts.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Revenue	$ 1,432,424

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 3

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect the expiration of tariff rates in special contracts for certain large industrial customers.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Revenue	$ 80,082,674

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 4

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to reflect the reversal of a reserve amount recorded for a dispute related to purchased power per settlement FAC 71.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Revenue	$ 33,500,000

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 5

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to reflect the amount related to the reversal of a reserve recorded for a dispute regarding financial transactions.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	$ (2,203,737)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 6

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to reflect Rate 825 Metal Melting.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	$ (804,136)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 7

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year revenue to eliminate an unbilled adjustment booked in 2007 related to prior years.

Line No.	Description A	Amount B
1	Retail Rates	$ 15,925,561
2	Other Revenue (Unbilled Deferred)	$ (4,969,946)
3	**Increase in Pro Forma Test Year Revenue**	**$ 10,955,615**

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove off-system sales revenue recorded in 2007.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	$ (50,400,058)

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove the sales of emission allowances in 2007.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Revenue	$ (11,790,599)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment REV - 10

Northern Indiana Public Service Company
Pro Forma Adjustment to Operating Revenue
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year revenue to remove revenues related to MISO transmission rate schedules 7 and 8.

Line No.	Description	Amount
	A	B
1	Per FERC Form I (page 331)	
2	MISO SCH 7	$ 1,986,657
3	MISO SCH 7	$ 1,340,653
4	MISO SCH 8	$ 1,398,724
5	**Decrease in Pro Forma Test Year Revenue**	**$ (4,726,034)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment FP - 1

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year fuel by the amount related to the pro forma revenue adjustment for normal weather.

Line No.	Description	Amount
	A	B
1	2007 Weather Normalization KWH	$ (163,302,530)
2	Base Cost of Fuel	0.022556
3	**Decrease in Pro Forma Test Year Fuel**	**$ (3,683,450)**

Petitioner's Exhibit No. LEM -3
Cause No. 43526
Adjustment FP - 2

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year fuel related to the pro forma revenue adjustment for Rate 825 Metal Melting.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Fuel	$ (628,813)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment FP - 3

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to correct for fuel handling expenses improperly charged to the DH Mitchell Station.

Line No.	Description A	Amount B
1	Adjusted Fuel Handling Expense	$ 605,349
2	Period in Years	6
3	**Increase in Pro Forma Test Year O&M Expense**	**$ 100,891**

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 fuel expense to reflect increased costs for gas and diesel fuel.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Fuel	$ 840,335

Northern Indiana Public Service Company
Pro Forma Adjustment to Fuel and Purchased Power
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year fuel related to 2007 off-system sales revenue.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Fuel	$ (21,285,492)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 1

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect increased production expenses for contract labor levels.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year O&M Expense	$ 1,006,664

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 2

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust variable operating costs required to operate generating facilities.

Line No.	Description	Amount
	A	B
1	Variable Operating Costs related to Redispatch	$ 56,311,398
2	2007 Variable Operating Costs	$ 52,310,160
3	**Increase in Pro Forma Test Year O&M Expense**	**$ 4,001,238**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 3

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect pension costs.

Line No.	Description A		Amount B
1	**Pension Expense (5-year average, 2004 - 2008)**	$	2,139,542
2	Electric Allocation Rate		69.15%
3	Electric Portion	$	1,479,493
4	Capitalization Rate		24.13%
5	**Electric Pension Expense Net of Capitalization**	**$**	**1,122,491**
6	**2007 Pension Expense**	$	(8,844,269)
7	Electric Allocation		69.15%
8	Electric Portion	$	(6,115,812)
9	Capitalized Rate		24.13%
10	**2007 Electric Pension Expense Net of Capitalization**	**$**	**(4,640,067)**
11	**Increase in Pro Forma Test Year O&M Expense**	**$**	**5,762,558**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 4

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense for increased costs related to post-retirement employee benefits.

Line No.	Description A	Amount B
1	**2008 Post-Retirement Benefits**	$ 34,696,389
2	Electric Allocation Rate	69.15%
3	Electric Portion	$ 23,992,553
4	Capitalization Rate	24.13%
5	**2008 Post-Retirement Benefits, Net of Capitalization**	**$ 18,203,150**
6	**Less: 2007 Post-Retirement Benefits**	$ 23,712,765
7	Electric Allocation Rate	69.15%
8	Electric Portion	$ 16,397,377
9	Capitalization Rate	24.13%
10	**2007 Post-Retirement Benefits, Net of Capitalization**	**$ 12,440,690**
11	**Increase in Pro Forma Test Year O&M Expense**	**$ 5,762,460**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 5

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for employee wage increases.

Line No.	Description A	Amount B
1	**NIPSCO Wage Increase**	
2	Non-Union	$ 1,824,108
3	Bargaining Unit	
4	Physical	$ 6,722,178
5	Clerical	$ 1,142,736
6	**Total NIPSCO Wage Increases**	**$ 9,689,022**
7	Electric Allocation Rate	69.15%
8	Electric Portion	$ 6,699,959
9	Capitalization Rate	24.13%
10	Capitalized Portion	$ 1,616,700
11	**Increase in Pro Forma Test Year O&M Expense**	**$ 5,083,259**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 6

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to reflect ongoing levels of incentive compensation expenses.

Line No.	Description A	Amount B
1	2008 Incentive Accrual at Threshold	6,534,006
2	Capitalization Rate	24.13%
3	Less: Capitalized Portion	1,576,656
4	2008 Incentive Accrual at Threshold, Net of Capitalization	$ 4,957,350
5	Less: 2007 Expense	
6	2007 Incentive Accrual, Net of Capitalization	$ 5,965,030
7	O&M Adjustment Related to 2006 Incentive Expensed in 2007	$ 279,109
8	Total 2007 Expense	$ 6,244,139
9	Adjustment Required to Incentive Compensation	$ (1,286,789)
10	Profit Sharing O&M Adjustment	$ (38,249)
11	Total	$ (1,325,038)
12	Electric Allocation Rate	69.15%
13	**Decrease in Pro Forma Test Year O&M Expense**	**$ (916,264)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 7

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect increased costs related to retirement replacements for aging workforce.

Line No.	Description A	Amount B
1	Aging Workforce (5-Year Forecast)	$ 19,626,036
2	Number of Years	5
3	**Increase in Pro Forma Test Year O&M Expense**	**$ 3,925,207**

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Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect employee vacancies.

Line No.	Description A	Amount B
1	**Gross**	
2	Pay and Incentive	$ 7,422,757
3	Benefits	$ 2,138,258
4	**Electric**	
5	Electric Allocation Rate	69.15%
6	Pay and Incentive (Line 2 x Line 5)	$ 5,132,836
7	Benefits (Line 3 x Line 5)	$ 1,478,605
8	**Capitalized Portion**	
9	Capitalization Rate	24.13%
10	Capitalized Portion of Pay and Incentive (Line 6 x Line 9)	$ 1,238,553
11	Capitalized Portion of Benefits (Line 7 x Line 9)	$ 356,787
12	**Allocated to Electric, Net of Capitalization**	
13	O&M Net Electric- Pay & Incentive (Line 6 - Line 10)	$ 3,894,283
14	O&M Net Electric- Benefits (Line 7 - Line 11)	$ 1,121,818
15	**Increase in Pro Forma Test Year O&M Expense**	**$ 5,016,101**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 9

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect additional staffing costs due to organizational structure changes.

Line No.	Description A	Amount B
1	Pay and Incentive	$ 5,012,218
2	Benefits	$ 1,401,571
3	**Increase in Pro Forma Test Year O&M Expense**	**$ 6,413,789**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 10

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense related to new safety programs for the electric line safety initiative required by NESC standards.

Line No.	Description	Amount
	A	B
1	Payroll & Incentive	$ 194,629
2	Purchases	$ 340,000
3	Benefits	$ 56,631
4	Total Safety Expenses	$ 591,260
5	Capitalization Rate	24.13%
6	Capitalized Portion	$ 142,671
7	**Increase in Pro Forma Test Year O&M Expense**	**$ 448,589**

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to eliminate the Edison Electric Institute (EEI) dues related to lobbying.

Line No.	Description	Amount
	A	B
1	Adjustment to remove lobbying activities from 2007 invoice	$ (128,013)
2	Adjustment for 2006 accrual reversal and 2007 payment	$ 72,588
3	**Decrease in Pro Forma Test Year O&M Expense**	**$ (55,425)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 12

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreases 2007 test year O&M expense to eliminate general and goodwill advertising costs.

Line No.	Description A	Amount B
1	2007 General Advertising	$ 59,692
2	1Q Common Allocation Adjustment	$ 371
3	**Decrease in Pro Forma Test Year O&M Expense**	**$ (60,063)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 13

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreases 2007 test year O&M expense to relect the ongoing level of bad debt expense per the Bailly N1 Refund Order, Cause No. 37972.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year O&M Expense	$ (200,000)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 14

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect the annualization of the U.S. postage increases for May 2007 and May 2008.

Line No.	Description A	Amount B
1	Increase for annualization of May 14, 2007 Postage increase	$ 64,319
2	Increase for annualization of May 12, 2008 Postage increase	$ 119,821
3	Total Increased Postage Costs	$ 184,140
4	Common Allocation Customer Ratio	38.99%
5	**Increase in Pro Forma Test Year O&M Expense**	**$ 71,796**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 15

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 O&M expense to reflect increased costs for gas and diesel fuel.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year O&M Expense	$ 799,403

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 16

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M Expense to reflect higher vegetation management and tree trimming expenses.

Line No.	Description A	Amount B
1	Vegetation Management and Tree Trimming Expenses (2008 - 2012 Estimate)	$ 61,139,470
2	Number of Years	5
3	Average Annual Expense	$ 12,227,894
4	2007 Actuals	$ 10,149,395
5	**Increase in Pro Forma Test Year O&M Expense**	**$ 2,078,499**

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to adjust for NiSource corporate services fees.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year O&M Expense	$ (2,318,771)

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to annualize a change resulting from an improvement in NIPSCO allocation methodology.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year O&M Expense	$ 3,187,121

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OM - 19

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense for non-recoverable advertising costs.

Line No.	Description	Amount
	A	B
1	Allowable Advertising	$ 250,721
2	2007 Actual Advertising Allocated to Electric	$ 617,014
3	**Decrease in Pro Forma Test Year O&M Expense**	**$ (366,293)**

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year O&M expense to reflect certain non-recoverable charges.

Line No.	Description A	Amount B
1	Decrease in Pro Forma Test Year O&M Expense	$ (84,528)

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect office leasing fees for the new Indianapolis office.

Line No.	Description	Amount
	A	B
1	Annual Rent Per lease	$ 76,635
2	Less: Lobbying Portion (12' x 12' office)	$ 2,808
3	Net Annual Rent Per Lease	$ 73,827
4	Common Allocation Customer Ratio	38.99%
5	**Increase in Pro Forma Test Year O&M Expense**	**$ 28,785**

Northern Indiana Public Service Company
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to reflect higher property insurance costs due to increased insurance premiums effective July 2008 .

Line No.	Description A	Amount B
1	NIPSCO Property Insurance 2008 / 2009	$ 7,204,113
2	NIPSCO Property Insurance 2007	$ 5,136,924
3	**Increase in Pro Forma Test Year O&M Expense**	**$ 2,067,189**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment DA - 1

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to reflect the change in common allocation methodology.

Line No.	Description A	Amount B
1	Increase In Pro Forma Test Year Depreciation and Amortization Expense	$ 227,322

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment DA - 2

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to reflect the expense amount calculated using new depreciation rates per the depreciation study.

Line No.	Description A	Amount B
1	2007 Actual Depreciation Expense	$ 176,244,660
2	D&A Study Depreciation Expense	$ 185,828,320
3	**Increase in Pro Forma Test Year Depreciation and Amortization Expense**	**$ 9,583,660**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment DA - 3

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to account for the amortization of deferred MISO charges through December 31, 2008 over a three year period.

Line No.	Description A	Amount B
1	Deferred MISO Charges @ 12/31/2007	$ 13,990,057
2	Estimated Deferred MISO Charges 1/1/2008 thru 12/31/2008	$ 10,778,099
3	Total Estimated Deferred MISO Charges	$ 24,768,156
4	Amortization Period in Years	3
5	**Increase in Pro Forma Test Year Depreciation and Amortization Expense**	**$ 8,256,052**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment DA - 4

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December, 31 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense for rate case costs amortized over a three year period.

Line No.	Description A	Amount B
1	Estimated Rate Case Expenses	$ 5,937,859
2	Amortization Period in Years	3
3	**Increase in Pro Forma Test Year Depreciation and Amortization Expense**	**$ 1,979,286**

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year depreciation and amortization expense to eliminate the amortization costs of deferred pure air charges (Bailly Generating Station Scrubber). These charges will be fully amortized in 2008.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Depreciation and Amortization Expense	$ (935,424)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment DA - 6

Northern Indiana Public Service Company
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense related to computer software costs allocated to common in the 1st quarter of 2007.

Line No.	Description A	Amount B
1	Increase in Pro Forma Test Year Depreciation and Amoritization Expense	$ 40,657

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 1

Nothern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income for electric property tax decreases due to changes in the common allocation methodology.

Line No.	Description	Amount
	A	B
1	2008 Electric Property Taxes	$ 32,585,239
2	2007 Electric Property Taxes	$ 33,630,366
3	**Decrease in Pro Forma Test Year Taxes Other Than Income**	**$ (1,045,127)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 2

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income for the Federal Excise Tax allocated to common in the 1st quarter of 2007.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Taxes Other Than Income	$ (12,431)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 3

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income to adjust for the increase in the state sales tax rate from six percent to seven percent.

Line No.	Description A	Amount B
1	Sales Tax charged to Electric O&M	$ 592,853
2	2007 Sales Tax Rate	6.00%
3	Taxable Purchases	$ 9,880,883
4	New Sales Tax Rate	7.00%
5	Adjustable Taxable Purchases	$ 691,662
6	**Increase in Pro Forma Test Year Taxes Other Than Income (Line 5 - Line 1)**	**$ 98,809**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 4

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income to remove non-utility property taxes that were misclassified.

Line No.	Description	Amount
1	Decrease in Pro Forma Test Year Taxes Other Than Income	$ (18,672)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 5

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income to adjust for payroll, incentive, social security and hospital insurance adjustments.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Taxes Other Than Income	$ 1,257,455

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year taxes other than income for the utility receipts tax related to the pro forma revenue adjustments.

Line No.	Description A	Amount B
1	2007 Pro Forma Revenue	$ 1,400,964,753
2	**Add:**	
3	Costruction Advances and Contribution in Aid	$ 1,192,407
4	**Less:**	
5	Interdepartmental Electric Sales Revenue	$ 2,887,915
6	Bad Debts - Electric	$ 3,174,492
7	Rent from Electric Property	$ 1,858,242
8	Other Electric Revenues	$ 28,390,023
9	Sales for Resale	$ 1,008,737
10	Exempt Sales	$ 1,788,991
11	Taxable Amount	$ 1,363,048,760
12	Utility Receipts Tax Rate	1.40%
13	Electric Utility Receipts Tax	$ 19,082,682
14	**Less:**	
15	Actual 2007 Utility Receipts Tax Expense	$ 18,372,838
16	Utility Receipts Tax on Pro Forma Revenue	$ 709,844
17	**Less:**	
18	Utility Receipts Tax on Trackable Fuel and Purchased Power (Adjustment OTX-6A)	$ 7,177,052
19	**Decrease in Pro Forma Test Year Taxes Other Than Income**	**$ (6,467,208)**

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This is the Utility Receipts Tax embedded in test year operating revenue related to fuel and purchased power.

Line No.	Description A	Amount B
1	Fuel and Purchased Power	$ 524,316,389
2	**Less:**	
3	Non-Trackable Fuel Costs (Fuel Handling Expenses)	$ 11,669,787
4	Trackable Fuel and Purchased Power	$ 512,646,602
5	Utility Receipts Tax Rate	1.40%
6	**Electric Utility Receipts Tax on Trackable Fuel and Purchased Power**	**$ 7,177,052**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment OTX - 7

Northern Indiana Public Service Company
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income for the public utility fee related to the 2007 pro forma revenue at present rates.

Line No.	Description	Amount
	A	B
1	**2007 Electric Revenues**	$ 1,400,964,753
2	**Less:**	
3	Sales for Resale	$ 1,008,737
4	Interdepartmental Electric Sales Revenue	$ 2,887,915
5	Forfeited Discounts	$ 3,713,444
6	Miscellaneous Service Revenues	$ 930,140
7	Rent from Electric Property	$ 1,858,242
8	Other Electric Revenues	$ 28,390,023
9	Bad Debt - Electric	$ 3,174,492
10	**Taxable Amount**	$ 1,359,001,760
11	Public Utility Fee Rate	0.1204%
12	Public Utility Fee	$ 1,636,229
13	Less: Actual 2007 Public Utility Fee Expense	$ 1,425,020
14	**Increase in Pro Forma Test Year Taxes Other Than Income**	**$ 211,209**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment ITX - 1

Northern Indiana Public Service Company
Pro Forma Adjustment to Income Taxes
Twelve Months Ended December 31, 2007

This pro forma adjustment decreased 2007 test year income taxes to adjust for the pro forma level of pre-tax income utilization of the interest synchronization method.

Line No.	Description	Amount
	A	B
1	Decrease in Pro Forma Test Year Income Taxes	$ (1,517,683)

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment PF - 1

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year revenue requirement based on an 8.34% rate of return on a net original cost rate base of $2,341,480,136.

Line No.	Description A	Amount B
1	Actual Net Operating Income	$ 181,283,030
2	Required Net Operating Income	$ 195,279,443
3	Surplus (Deficit)	$ (13,996,413)
4	Tax Gross-Up Rate	1.713542749
5	**Increase in Pro Forma Test Year Revenue Requirement Based on Proposed Rates**	**$ (23,983,452)**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment PF - 2

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased 2007 test year O&M expense to reflect the level of uncollectible accounts based on the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 23,983,452
2	Uncollectible Accounts Rate	0.226593%
3	**Increase in Pro Forma Test Year O&M Expense Based on Proposed Rates**	**$ 54,345**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment PF - 3

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the Indiana utility receipts tax associated with the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 23,983,452
2	IURT Rate	1.40%
3	**Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates**	**$ 335,768**

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the public utility fees associated with the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 23,983,452
2	Public Utility Fee Rate	0.1204%
3	**Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates**	**$ 28,876**

Petitioner's Exhibit No. LEM - 3
Cause No. 43526
Adjustment PF - 5

Northern Indiana Public Service Company
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year income taxes to reflect the federal and state income taxes applied to the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 23,983,452
2	Effective Federal Tax Rate	31.423875%
3	Effective State Tax Rate	8.470506%
4	**Increase in Pro Forma Test Year Income Taxes Based on Proposed Rates**	**$ 9,568,050**

Rate Base
Actual, Jurisdictional, As Updated
Twelve Months Ended December 31, 2007

Line No.	Description A	Actual B	Updates C	Total D
1	**RATE BASE**			
2	Utility Plant	$ 4,967,588,851	$ (90,074,937)	$ 4,877,513,914
3	Common Allocated	213,322,211	1,180,329	214,502,540
4	Less Disallowed Plant: Unit 17	31,733,655	-	31,733,655
5	Total Utility Plant	5,149,177,407	(88,894,608)	5,060,282,799
6	Accumulated Depreciation and Amortization	(2,883,773,255)	83,392,777	(2,800,380,478)
7	Common Allocated	(97,073,378)	(1,335,790)	(98,409,168)
8	Less Disallowed Plant: Unit 17	(27,399,652)	-	(27,399,652)
9	Total Accumulated Depreciation and Amortization	(2,953,446,981)	82,056,987	(2,871,389,994)
10	Net Utility Plant	2,195,730,426	(6,837,621)	2,188,892,805
11	Pure Air Deferred Charges	526,218	-	526,218
12	Unit 17 Depreciation	542,928	-	542,928
13	Unit 18 Depreciation	5,206,694	-	5,206,694
14	Unit 18 Carrying Charges	16,132,193	-	16,132,193
15	Prepaid Pension Asset	25,705,004	-	25,705,004
16	Materials & Supplies	46,907,735	-	46,907,735
17	Production Fuel	57,566,559	-	57,566,559
18	Total Rate Base	$ 2,348,317,757	$ (6,837,621)	$ 2,341,480,136
19	**REQUIRED NET OPERATING INCOME**			
20	Total Rate Base			$ 2,341,480,136
21	Rate of Return			8.34%
22	Required Net Operating Income			$ 195,279,443

Summary of Rate Base Updates
December 31, 2007 As Updated

Line No	Description	Exhibit No.	Debit		Credit	
	A	B	C		D	
1	**Rate Base Updates:**					
2	**DH Mitchell Plant Retirement**					
3	Mitchell Units 4, 5, 6, 11, and 9A- Plant-in-Service (includes Phase 1&2)	RB - 1	$	-	$	175,909,015
4	Mitchell Units 4, 5, 6, 11 and 9A - Accumulated Depreciation	RB - 2	$	178,072,088	$	-
5	**Michigan City 2&3 Plant Retirement**					
6	MC Units 2 & 3 - Plant-in-Service (includes Phase 1&2)	RB - 3	$	-	$	19,395,755
7	MC Units 2 & 3 - Accumulated Depreciation	RB - 4	$	18,096,416	$	-
8	**Seven Factor Test**					
9	Gross Plant	RB - 5	$	123,243,366	$	123,243,367
10	Accumulated Depreciation and Amortization	RB - 6	$	48,919,630	$	48,919,630
11	**All Other Transfers / Corrections**					
12	**Electric**					
13	Gross Plant	RB - 7	$	148,573,386	$	43,343,552
14	Accumulated Depreciation	RB - 8	$	17,622,081	$	130,397,808
15	**Common**					
16	Gross Plant	RB - 9	$	1,180,329	$	-
17	Accumulated Depreciation	RB - 10	$	-	$	1,335,790
18	**Total Rate Base Updates**		**$**	**535,707,296**	**$**	**542,544,917**
19	**Net Increase / (Decrease)**		**$**	**(6,837,621)**		

Capital Structure
December 31, 2007 As Adjusted

Line No.	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
1	Common Equity	$ 1,395,245,772	49.76%	12.00%	5.97%
2	Long-Term Debt	$ 906,997,137	32.35%	6.56%	2.12%
3	Customer Deposits	$ 63,684,199	2.27%	6.00%	0.14%
4	Deferred Income Taxes	$ 294,780,249	10.51%	0.00%	0.00%
5	Post-Retirement Liability	$ 112,678,496	4.02%	0.00%	0.00%
6	Post-1970 ITC	$ 30,350,460	1.08%	9.86%	0.11%
7	**Totals**	**$ 2,803,736,313**	**100.00%**		**8.34%**

Cost of Investor Supplied Capital

	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
8	Common Equity	$ 1,395,245,772	60.60%	12.00%	7.28%
9	Long-Term Debt	$ 906,997,137	39.40%	6.56%	2.58%
10	**Totals**	**$ 2,302,242,909**	**100.00%**		**9.86%**

Capital Structure
December 31, 2007 As Adjusted

Line No.	Description	2007 Actuals	Debit	Credit	Ref.	Pro Forma Balance	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E	F	G	H	I
1	Common Equity	$ 1,394,077,564	$ -	$ 1,168,208	CS - 1	$ 1,395,245,772	49.76%	12.00%	5.97%
2	Long-Term Debt	$ 746,997,137	$ -	$ 160,000,000	CS - 2	$ 906,997,137	32.35%	6.56%	2.12%
3	Customer Deposits	$ 63,684,199	$ -	$ -		$ 63,684,199	2.27%	6.00%	0.14%
4	Deferred Income Taxes	$ 293,984,257	$ -	$ 795,992	CS - 3	$ 294,780,249	10.51%	0.00%	0.00%
5	Retirement Liability	$ 112,678,496				$ 112,678,496	4.02%	0.00%	0.00%
6	Post-1970 ITC	$ 30,350,460	$ -	$ -		$ 30,350,460	1.08%	9.86%	0.11%
7	**Totals**	**$ 2,641,772,113**	**$ -**	**$ 161,964,200**		**$ 2,803,736,313**	**100.00%**		**8.34%**

Cost of Long-Term Debt
December 31, 2007 As Adjusted

Line No.	Rate A	Description B	Date of Issuance C	Date of Maturity D	Principal Amount E	Interest Requirement F	Cost Rate G
		Pollution Control (1)					
1	5.75%	Series 1988 Notes Series A	November 3, 1988	November 1, 2016	$ 37,000,000	$ 2,127,500	
2	5.75%	Series 1988 Notes Series B	November 3, 1988	November 1, 2016	$ 47,000,000	$ 2,702,500	
3	5.75%	Series 1988 Notes Series C	November 3, 1988	November 1, 2016	$ 46,000,000	$ 2,645,000	
4	4.75%	Series 1994 A Notes	August 25, 1994	August 1, 2010	$ 10,000,000	$ 475,000	
5	5.25%	Series 1994 B Notes	August 25, 1994	June 1, 2013	$ 18,000,000	$ 945,000	
6	6.00%	Series 1994 C Notes	August 25, 1994	April 1, 2019	$ 41,000,000	$ 2,460,000	
7	5.875%	Series 2003 C Notes	December 1, 2003	July 1, 2017	$ 55,000,000	$ 3,231,250	
8		**Intercompany Long-Term Debt**					
9	5.42%	Intercompany LT Note 5.42%	June 28, 2005	June 26, 2020	$ 137,500,000	$ 7,452,500	
10	5.21%	Intercompany LT Note 5.21%	June 28, 2005	June 27, 2015	$ 137,500,000	$ 7,163,750	
11	5.99%	Intercompany LT Note 5.985%	September 18, 2005	September 18, 2025	$ 75,000,000	$ 4,492,500	
12		**Medium-Term Notes**					
13	7.44%	Various Maturities			$ 165,200,000	$ 12,290,880	
14		**Long-Term Debt**					
15	6.09%	LT Note 6.09% - Refinancing	June 6, 2008	June 6, 2018	$ 80,000,000	$ 4,872,000	
16	6.525%	LT Note 6.525%- Refinancing	June 6, 2008	June 6, 2023	$ 80,000,000	$ 5,220,000	
17		**Total Long-Term Debt Per Balance Sheet**			$ 929,200,000	$ 56,077,880	
18		**Related Accounts:**					
19		Unamortized Debt Discount and Expense (2)			$ (6,622,844)	$ -	
20		Unamortized Call Premiums on Early Redemption of Long Term Debt			$ (15,580,019)	$ -	
21		Amortization of Debt Discount and Expense (3)			$ -	$ 707,015	
22		Amortization of Call Premiums on Early Redemption of Long Term Debt			$ -	$ 2,674,576	
23		**Total Long-Term Debt Used to Calculate Weighted Cost**			$ 906,997,137	$ 59,459,471	6.56%

24 (1) Projected rates from pending reoffering of Pollution Control Notes

25 (2) Increased the Unamortized Debt Discount and Expense by $ 850,000 for reoffering of Pollution Control Notes

26 (3) Increased Amortization of Debt Discount and Expense by $ 119,076 for reoffering of Pollution Control Notes

Northern Indiana Public Service Company
Sugar Creek
Statement of Operating Income
Pro Forma Results Based on Proposed Rates

Line No.	Description	Ref	Pro Forma Results Based on Proposed Rates
	A	B	C
1	**Gross Margin**	SCPF - 1	**$ 80,723,642**
2	**Operations and Maintenance Expense**		
3	Variable Production Expenses	SCOM - 1	$ 3,572,954
4	Other Operation & Maintenance Expenses	SCOM - 2	$ 5,815,467
5	Uncollectible Accounts (based on Proposed Rates)	SCOM - 3	$ 182,914
6	Total Operations and Maintenance Expense		$ 9,571,335
7	**Depreciation Expense**		
8	Depreciation Expense	SCDA - 1	$ 11,236,857
9	**Total Depreciation Expense**		$ 11,236,857
10	**Amortization Expense**		
11	Sugar Creek - Deferred Depreciation	SCDA - 2	$ 2,694,743
12	Sugar Creek - Deferred Carrying Charges	SCDA - 3	$ 8,529,686
13	**Total Amortization Expense**		$ 11,224,429
14	**Taxes**		
15	**Taxes Other than Income**		
16	Real Estate/Personal Property Tax	SCOTX - 1	$ 1,132,243
17	Public Utility Fee (based on Proposed Rates)	SCOTX - 2	$ 97,191
18	Indiana Utility Receipts Tax (based on Proposed Rates)	SCOTX - 3	$ 1,130,131
19	Total Taxes Other Than Income		$ 2,359,565
20	**Income Taxes**		
21	Federal and State Taxes (based on Proposed Rates)	SCITX - 1	$ 15,711,692
22	**Total Taxes**		$ 18,071,257
23	**Total Operating Expenses**		**$ 50,103,878**
24	**Required Net Operating Income**		**$ 30,619,764**

Northern Indiana Public Service Company
Sugar Creek
Calculation of Proposed Revenue Increase
Based on Pro Forma Operating Results

Line No.	Description	Revenue Deficiency
	A	B
1	Net Original Cost Rate Base	$ 363,223,758
2	Rate of Return	8.43%
3	Required Net Operating Income	$ 30,619,764
4	Increase in Revene Requirement (Based on Net Original Cost Rate Base)	$ 80,723,642
5	Pro Forma Operating Expenses Based on Proposed Rates	$ 34,392,186
6	Income Before Income Taxes	$ 46,331,456
7	Federal and State Taxes Based on Proposed Rates and Expenses	$ 15,711,692
8	Required Net Operating Income	$ 30,619,764

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCPF - 1

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year revenue requirement based on an 8.43% rate of return on a net original cost rate base of $363,223,758.

Line No.	Description A	Amount B
1	Required Net Operating Income	$ 30,619,764
2	Actual Net Operating Income	$ (16,489,444)
3	Surplus (Deficit)	$ 47,109,208
4	Tax Gross-Up Rate	1.713542749
5	**Increase in Pro Forma Test Year Revenue Requirement Based on Proposed Rates**	**$ 80,723,642**

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCOM - 1

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for Sugar Creek variable operating costs.

Line No.	Description A	Amount B
1	Maintenance Parts & Service	$ 525,693
2	Long-Term Service Agreement	$ 2,838,851
3	Chemicals	$ 208,410
4	**Increase in Pro Forma Test Year O&M Expense**	**$ 3,572,954**

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCOM - 2

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Operation and Maintenance Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year O&M expense to adjust for other Sugar Creek operating and maintenance costs.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year O&M Expense	$ 5,815,467

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCOM - 3

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased 2007 test year O&M expense to reflect the level of uncollectible accounts based on the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 80,723,642
2	Uncollectible Accounts Rate	0.226593%
3	**Increase in Pro Forma Test Year O&M Expense Based on Proposed Rates**	**$ 182,914**

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCDA - 1

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation expense to reflect the expense amount for Sugar Creek calculated using new depreciation rates per the depreciation study.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Depreciation and Amortization Expense	$ 11,236,857

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCDA - 2

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Depreciation and Amortization Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to amortize costs of deferred depreciation on Sugar Creek per Cause No. 43396.

Line No.	Description A	Amount B
1	Annual Depreciation	$ 11,236,857
2	Annual Reduction (FAC71-S1)	$ 4,500,000
3	Annual Depreciation Deferred	$ 6,736,857
4	Years (June 1, 2008 through May 31, 2010)	2
5	Total Depreciation Deferred	$ 13,473,714
6	Amortization Period in Years Per Cause No. 43396	5
7	**Increase in Pro Forma Test Year Depreciation and Amortization Expense**	**$ 2,694,743**

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Depreciation Expense
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year depreciation and amortization expense to amortize the costs of deferred carrying charges on Sugar Creek per Cause No. 43396.

Line No.	Description A	Amount B
1	Sugar Creek Plant Cost	$ 328,064,833
2	Annual Interest Rate	6.50%
3	Annual Deferred Carrying Charges	$ 21,324,214
4	Years (June 1, 2008 through May 31, 2010)	2
5	Deferred Carrying Charges for Sugar Creek	$ 42,648,428
6	Amortization Period in Years Per Cause No. 43396	5
7	**Increase in Pro Forma Test Year Depreciation and Amortization Expense**	**$ 8,529,686**

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment to Taxes Other Than Income
Twelve Months Ended December 31, 2007

This pro forma adjustment increased 2007 test year taxes other than income to adjust for electric property taxes for Sugar Creek for June 2010 through May 2011.

Line No.	Description	Amount
	A	B
1	Sugar Creek Property Taxes: June 2010 - December 2010	$ 595,944
2	Sugar Creek Property Taxes: January 2011 - May 2011	$ 536,299
3	**Increase Pro Forma Test Year Taxes Other Than Income**	**$ 1,132,243**

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCOTX - 2

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the public utility fees associated with the proposed revenue requirement increase.

Line No.	Description A	Amount B
1	Gross Margin Deficiency	$ 80,723,642
2	Public Utility Fee Rate	0.1204%
3	**Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates**	**$ 97,191**

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year taxes other than income to reflect the Indiana utility receipts tax associated with the proposed revenue requirement increase.

Line No.	Description	Amount
	A	B
1	Gross Margin Deficiency	$ 80,723,642
2	IURT Rate	1.40%
3	**Increase in Pro Forma Test Year Taxes Other Than Income Based on Proposed Rates**	**$ 1,130,131**

Petitioner's Exhibit No. LEM - 7
Cause No. 43526
Adjustment SCITX - 1

Northern Indiana Public Service Company
Sugar Creek
Pro Forma Adjustment Based on Proposed Rates
Twelve Months Ended December 31, 2007

This proposed rates adjustment increased the 2007 test year income taxes to reflect the federal and state income taxes applied to the proposed revenue requirement increase.

Line No.	Description	Amount
	A	B
1	Increase in Pro Forma Test Year Income Taxes Based on Proposed Rates	$ 15,711,692

Rate Base
Sugar Creek
Actual, Jurisdictional, As Updated
Twelve Months Ended December 31, 2007

Line No.	Description	Actual	Updates	Total
	A	B	C	D
1	**RATE BASE**			
2	Utility Plant	$ -	$ 328,064,833	$ 328,064,833
3	Accumulated Depreciation and Amortization	-	(22,473,714)	(22,473,714)
4	Net Utility Plant	-	305,591,119	305,591,119
5	Materials & Supplies	-	1,510,497	1,510,497
6	Unamortized Deferred Depreciation	-	13,473,714	13,473,714
7	Unamortized Deferred Carrying Charges	-	42,648,428	42,648,428
8	Total Rate Base	$ -	$ 363,223,758	$ 363,223,758
9	**REQUIRED NET OPERATING INCOME**			
10	Total Rate Base			$ 363,223,758
11	Rate of Return			8.43%
12	Required Net Operating Income			$ 30,619,764

Summary of Rate Base Updates
Sugar Creek
December 31, 2007 As Updated

Line No	Description	Exhibit No.	Debit	Credit
	A	B	C	D
1	**Rate Base Updates**			
2	**Sugar Creek**			
3	Sugar Creek Gross Plant	SCRB - 1	$ 328,064,833	$ -
4	Sugar Creek M&S Inventory	SCRB - 2	$ 1,510,497	$ -
5	Accumuled Depreciation Reserve	SCRB - 3	$ -	$ 22,473,714
6	**All Other**			
7	Unamortized Deferred Depreciation	SCRB - 4	$ 13,473,714	$ -
8	Unamortized Deferred Carrying Charges	SCRB - 5	$ 42,648,428	$ -
9	**Total Rate Base Updates**		$ 385,697,472	$ 22,473,714
10	**Net Increase / (Decrease)**		$ 363,223,758	

Capital Structure

Sugar Creek

Line No.	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
1	Common Equity	$ 1,535,245,772	50.11%	12.00%	6.01%
2	Long-Term Debt	$ 1,026,997,137	33.52%	6.55%	2.20%
3	Customer Deposits	$ 63,684,199	2.08%	6.00%	0.12%
4	Deferred Income Taxes	$ 294,780,249	9.62%	0.00%	0.00%
5	Post-Retirement Liability	$ 112,678,496	3.68%	0.00%	0.00%
6	Post-1970 ITC	$ 30,350,460	0.99%	9.82%	0.10%
7	**Totals**	**$ 3,063,736,313**	**100.00%**		**8.43%**

Cost of Investor Supplied Capital

	Description	Total Company Capitalization	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E
8	Common Equity	$ 1,535,245,772	59.92%	12.00%	7.19%
9	Long-Term Debt	$ 1,026,997,137	40.08%	6.55%	2.63%
10	**Totals**	**$ 2,562,242,909**	**100.00%**		**9.82%**

Capital Structure
Sugar Creek

Line No.	Description	Step One Pro Forma Balance	Debit	Credit	Ref.	Step Two Pro Forma Balance	Percent of Total	Cost	Weighted Average Cost
	A	B	C	D	E	F	G	H	I
1	Common Equity	$ 1,395,245,772	$ -	$ 140,000,000	SCCS - 1	$ 1,535,245,772	50.11%	12.00%	6.01%
2	Long-Term Debt	$ 906,997,137	$ -	$ 120,000,000	SCCS - 2	$ 1,026,997,137	33.52%	6.55%	2.20%
3	Customer Deposits	$ 63,684,199	$ -	$ -		$ 63,684,199	2.08%	6.00%	0.12%
4	Deferred Income Taxes	$ 294,780,249	$ -	$ -		$ 294,780,249	9.62%	0.00%	0.00%
5	Retirement Liability	$ 112,678,496	$ -	$ -		$ 112,678,496	3.68%	0.00%	0.00%
6	Post-1970 ITC	$ 30,350,460	$ -	$ -		$ 30,350,460	0.99%	9.82%	0.10%
7	**Totals**	**$ 2,803,736,313**	**$ -**	**$ 260,000,000**		**$ 3,063,736,313**	**100.00%**		**8.43%**

Long-Term Debt
Sugar Creek

Line No.	Rate (A)	Description	Date of Issuance	Date of Maturity	Principal Amount	Interest Requirement	Cost Rate
	A	B	C	D	E	F	G
1		**Pollution Control**					
2	5.75%	Series 1988 Notes Series A	November 3, 1988	November 1, 2016	$ 37,000,000	$ 2,127,500	
3	5.75%	Series 1988 Notes Series B	November 3, 1988	November 1, 2016	$ 47,000,000	$ 2,702,500	
4	5.75%	Series 1988 Notes Series C	November 3, 1988	November 1, 2016	$ 46,000,000	$ 2,645,000	
5	4.75%	Series 1994 A Notes	August 25, 1994	August 1, 2010	$ 10,000,000	$ 475,000	
6	5.25%	Series 1994 B Notes	August 25, 1994	June 1, 2013	$ 18,000,000	$ 945,000	
7	6.00%	Series 1994 C Notes	August 25, 1994	April 1, 2019	$ 41,000,000	$ 2,460,000	
8	5.875%	Series 2003 C Notes	December 1, 2003	July 1, 2017	$ 55,000,000	$ 3,231,250	
9		**Intercompany Long-Term Debt**					
10	5.42%	Intercompany LT Note 5.42%	June 28, 2005	June 26, 2020	$ 137,500,000	$ 7,452,500	
11	5.21%	Intercompany LT Note 5.21%	June 28, 2005	June 27, 2015	$ 137,500,000	$ 7,163,750	
12	5.99%	Intercompany LT Note 5.985%	September 18, 2005	September 18, 2025	$ 75,000,000	$ 4,492,500	
13		**Medium-Term Notes**					
14	7.44%	Various Maturities			$ 165,200,000	$ 12,290,880	
15		**Long-Term Debt**					
16	6.50%	LT Note 6.50% - Sugar Creek Purchase	Pending	Pending	$ 120,000,000	$ 7,800,000	
17	6.09%	LT Note 6.09% - Refinancing	June 6, 2008	June 6, 2018	$ 80,000,000	$ 4,872,000	
18	6.525%	LT Note 6.525%- Refinancing	June 6, 2008	June 6, 2023	$ 80,000,000	$ 5,220,000	
19		**Total Long-Term Debt Per Balance Sheet**			$ 1,049,200,000	$ 63,877,880	
20		**Related Accounts:**					
21		Unamortized Debt Discount and Expense			$ (6,622,844)	$ -	
22		Unamortized Call Premiums on Early Redemption of Long Term Debt			$ (15,580,019)	$ -	
23		Amortization of Debt Discount and Expense			$ -	$ 707,015	
24		Amortization of Call Premiums on Early Redemption of Long Term Debt			$ -	$ 2,674,576	
25		**Total Long-Term Debt Used to Calculate Weighted Cost**			$ 1,026,997,137	$ 67,259,471	6.55%

26 (1) Projected rates from pending reoffering of Pollution Control Notes

27 (2) Increased the Unamortized Debt Discount and Expense by $ 850,000 for reoffering of Pollution Control Notes

28 (3) Increased Amortization of Debt Discount and Expense by $ 119,076 for reoffering of Pollution Control Notes

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Reliability Adjustment
For the Estimated Months of
January , February and March 20XX
And the Billing Months of
February, March and April 20XX

Line No.			Line No.
1	Capacity Purchases (Page 2 of 9)	$ 2,100,000	1
2	MISO Costs - Demand Allocated (Page 4 of 9)	3,000	2
3	Total Reliability Adjustment Demand Allocated Charges (Credits)	$ 2,103,000	3
4	Purchased Power Purchases (Page 3 of 9)	$ 24,750,000	4
5	MISO Costs - Energy Allocated (Page 4 of 9)	750,000	5
6	Off System Sales Net Revenue (Pge 5 of 9)	(480,000)	6
7	Total Reliability Adjustment Energy Allocated Charges (Credits)	$ 25,020,000	7

		Demand Allocated Charges			Energy Allocated Charges			
	Rate Code	Production Allocation	% of Total	Total Demand Allocated Costs Col. c x Total Col. d	Forecasted KWH Sales for Quarter	Percent of Total Sales	Total Energy Allocated Costs Col. f x Total Col. g	
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	
8	511	$ 422,891,887	34.91%	$ 734,157	1,000,000	22.517%	$ 5,633,866	8
9	521	30,582,843	2.52%	52,996	110,000	2.477%	619,725	9
10	523	164,025,617	13.54%	284,746	550,000	12.385%	3,098,626	10
11	526	11,600,134	0.96%	20,189	65,000	1.464%	366,201	11
12	527	8,753,270	0.72%	15,142	75,000	1.689%	422,540	12
13	533	238,348,307	19.67%	413,660	900,000	20.266%	5,070,480	13
14	534	271,111,737	22.37%	470,441	1,175,000	26.458%	6,619,793	14
15	536	56,614,273	4.67%	98,210	515,000	11.596%	2,901,441	15
16	541	1,253,830	0.10%	2,103	7,000	0.158%	39,437	16
17	544	623,071	0.05%	1,052	5,000	0.113%	28,169	17
18	545	433,565	0.04%	841	6,000	0.135%	33,803	18
19	550	905,717	0.07%	1,472	13,000	0.293%	73,240	19
20	555	489,448	0.04%	841	2,500	0.056%	14,085	20
21	560	264,034	0.02%	421	14,000	0.315%	78,874	21
22	Interdepartmental	3,908,418	0.32%	6,730	3,500	0.079%	19,719	22
23	Total	$ 1,211,806,151	100.00%	$ 2,103,000	4,441,000	100.000%	$ 25,020,000	23

	Rate Code	Total Capacity Purchase Costs Col. d	Total Energy Purchase Costs Col. g	Variance	Total Costs Col. i + j + k	Reliabilty Adjustment Rate Col. (l) / (e)	**Reliabilty Adjustment Rate Modified for URTRS & AGIT**	
	(h)	(i)	(j)	(k)	(l)	(m)	(n)	
24	511	$ 734,157	$ 5,633,866	$ 112,587	$ 6,480,611	6.4806	**6.581**	24
25	521	52,996	619,725	12,385	685,105	6.2282	**6.325**	25
26	523	284,746	3,098,626	61,923	3,445,296	6.2642	**6.362**	26
27	526	20,189	366,201	7,318	393,708	6.0571	**6.151**	27
28	527	15,142	422,540	8,444	446,126	5.9483	**6.041**	28
29	533	413,660	5,070,480	101,329	5,585,468	6.2061	**6.303**	29
30	534	470,441	6,619,793	132,290	7,222,524	6.1468	**6.242**	30
31	536	98,210	2,901,441	57,982	3,057,634	5.9372	**6.029**	31
32	541	2,103	39,437	788	42,328	6.0469	**6.141**	32
33	544	1,052	28,169	563	29,784	5.9568	**6.049**	33
34	545	841	33,803	676	35,320	5.8867	**5.978**	34
35	550	1,472	73,240	1,464	76,176	5.8597	**5.951**	35
36	555	841	14,085	281	15,207	6.0829	**6.177**	36
37	560	421	78,874	1,576	80,871	5.7765	**5.866**	37
38	Interdepartmental	6,730	19,719	394	26,842	7.6692	**7.788**	38
39	Total	$ 2,103,000	$ 25,020,000	$ 500,000	$ 27,623,000			39

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Capacity Costs to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.	SUPPLIER	MWH PURCHASED	AMOUNT	LINE NO.
	Capacity Purchases			
1	January 20XX	500	$ 700,000	1
2	February 20XX	500	700,000	2
3	March 20XX	500	700,000	3
4	**TOTAL to be included in Reliability Adjustment**	1,500	$ 2,100,000	4

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Purchased Power Costs to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.	SUPPLIER	MWH PURCHASED	AMOUNT	LINE NO.
	Energy Purchases			
1	**January 20XX**			1
2	Purchases through MISO	40,000	$ 2,200,000	2
3	Purchased Power other than MISO	90,000	4,950,000	3
4	TOTAL	130,000	$ 7,150,000	4
5	**February 20XX**			5
6	Purchases through MISO	50,000	$ 2,750,000	6
7	Purchased Power other than MISO	100,000	5,500,000	7
8	TOTAL	150,000	$ 8,250,000	8
9	**March 20XX**			9
10	Purchases through MISO	45,000	$ 2,475,000	10
11	Purchased Power other than MISO	125,000	6,875,000	11
12	TOTAL	170,000	$ 9,350,000	12
13	**TOTAL to be included in Reliability Adjustment**	450,000	$ 24,750,000	13

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of MISO to be included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.	SUPPLIER		AMOUNT	LINE NO.
	MISO Charges			
1	January , 20XX	$	1,000	1
2	February, 20XX		1,000	2
3	March, 20XX		1,000	3
4	Total MISO Charges - demand allocated	$	3,000	4
5	January , 20XX	$	250,000	5
6	February, 20XX		250,000	6
7	March, 20XX		250,000	7
8	Total MISO Charges - energy allocated	$	750,000	8
9	**TOTAL to be included in Reliability Adjustment**	$	753,000	9

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Determination of Off System Sales Net Revenue included in Reliability Adjustment
For the Estimated Months of
January, February and March 20XX
And the Billing Months of
February, March and April 20XX

LINE NO.		MWH SOLD	REVENUES & FUEL COST	LINE NO.
	January 20XX			
1	**Revenues :**			1
2	Intersystem Sales through MISO	8,000	$ 400,000	2
3	**Costs :**			3
4	Intersystem Sales through MISO	8,000	240,000	4
5	**Net Revenue**		$ 160,000	5
	February 20XX			
6	**Revenues :**			6
7	Intersystem Sales through MISO	6,000	$ 300,000	7
8	**Costs :**			8
9	Intersystem Sales through MISO	6,000	180,000	9
10	**Net Revenue**		$ 120,000	10
	March 20XX			
11	**Revenues :**			11
12	Intersystem Sales through MISO	10,000	$ 500,000	12
13	**Costs :**			13
14	Intersystem Sales through MISO	10,000	300,000	14
15	**Net Revenue**		$ 200,000	15
16	**TOTAL to be deducted from Reliability Adjustment**		$ 480,000	16

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reconciliation of Reliability Adjustment
For the Months of
Month A, Month B and Month C 20XX

Line No.	Rate Code (a)	Reliability Adjustment Costs Recovered (b)	Variance from RA - 01 (c)	Reliability Adjustment Costs to be Reconciled with Actual Costs Incurred Col. b less Col. c (d)	Actual Reliability Adjustment Costs (e)	Variance Col. e less Col. d (f)	Line No.
1	511	$ 2,138,602	$ 112,587	$ 2,026,014	$ 2,038,269	$ 12,254	1
2	521	230,445	12,385	218,060	221,409	3,349	2
3	523	1,127,551	61,923	1,065,628	1,083,669	18,040	3
4	526	133,255	7,318	125,937	128,898	2,961	4
5	527	148,709	8,444	140,264	144,579	4,315	5
6	533	1,861,823	101,329	1,760,494	1,791,312	30,818	6
7	534	2,458,732	132,290	2,326,442	2,368,709	42,268	7
8	536	1,021,190	57,982	963,208	993,255	30,047	8
9	541	15,117	788	14,329	14,601	272	9
10	544	11,914	563	11,351	11,527	177	10
11	545	11,773	676	11,098	11,476	379	11
12	550	23,439	1,464	21,975	22,902	927	12
13	555	4,866	281	4,585	4,713	128	13
14	560	6,932	1,576	5,356	6,865	1,510	14
15	Interdept.	38,346	394	37,952	29,815	(8,137)	15
16		$ 9,232,693	$ 500,000	$ 8,732,693	$ 8,872,000	$ 139,307	16

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reconciliation of Reliability Adjustment
For the Months of
Month

Line No.	Rate Code	KWH Sales (000's)	RT - 1 Reliability Adjustment Rate	Reliability Adjustment Costs Recovered Col. a x Col. c	Variance from RT - 01	Reliability Adjustment Costs to be Reconciled with Actual Costs Incurred Col. d less Col. e	Actual Reliability Adjustment Costs	Variance Col. f less Col. g	Line No.
	(a)	(b)	(c)	(d)	(e)	(f)	(g)	(h)	
1	511	330,000	6.4806	$ 2,138,602	$ 112,587	$ 2,026,014	$ 2,038,269	$ 12,254	1
2	521	37,000	6.2282	230,445	12,385	218,060	221,409	3,349	2
3	523	180,000	6.2642	1,127,551	61,923	1,065,628	1,083,669	18,040	3
4	526	22,000	6.0571	133,255	7,318	125,937	128,898	2,961	4
5	527	25,000	5.9483	148,709	8,444	140,264	144,579	4,315	5
6	533	300,000	6.2061	1,861,823	101,329	1,760,494	1,791,312	30,818	6
7	534	400,000	6.1468	2,458,732	132,290	2,326,442	2,368,709	42,268	7
8	536	172,000	5.9372	1,021,190	57,982	963,208	993,255	30,047	8
9	541	2,500	6.0469	15,117	788	14,329	14,601	272	9
10	544	2,000	5.9568	11,914	563	11,351	11,527	177	10
11	545	2,000	5.8867	11,773	676	11,098	11,476	379	11
12	550	4,000	5.8597	23,439	1,464	21,975	22,902	927	12
13	555	800	6.0829	4,866	281	4,585	4,713	128	13
14	560	1,200	5.7765	6,932	1,576	5,356	6,865	1,510	14
15	Interdept.	5,000	7.6692	38,346	394	37,952	29,815	(8,137)	15
16		1,483,500		$ 9,232,693	500,000	$ 8,732,693	$ 8,872,000	$ 139,307	16

Line No.	Rate Code	Production Allocation	% of Total	Total Actual Demand Allocated Costs	Total Capacity Purchases per Kwh	Total Energy Purchase Costs	Total Reliability Adjustment Costs	Line No.
	(i)	(j)	(k)	(l)	(m)	(n)	(o)	
17	511	$ 422,891,887	34.91%	$ 178,390	22.245%	$ 1,859,879	$ 2,038,269	17
18	521	30,582,843	2.52%	12,877	2.494%	208,532	221,409	18
19	523	164,025,617	13.54%	69,189	12.133%	1,014,479	1,083,669	19
20	526	11,600,134	0.96%	4,906	1.483%	123,992	128,898	20
21	527	8,753,270	0.72%	3,679	1.685%	140,900	144,579	21
22	533	238,348,307	19.67%	100,514	20.222%	1,690,799	1,791,312	22
23	534	271,111,737	22.37%	114,311	26.963%	2,254,398	2,368,709	23
24	536	56,614,273	4.67%	23,864	11.594%	969,391	993,255	24
25	541	1,253,830	0.10%	511	0.169%	14,090	14,601	25
26	544	623,071	0.05%	256	0.135%	11,272	11,527	26
27	545	433,565	0.04%	204	0.135%	11,272	11,476	27
28	550	905,717	0.07%	358	0.270%	22,544	22,902	28
29	555	489,448	0.04%	204	0.054%	4,509	4,713	29
30	560	264,034	0.02%	102	0.081%	6,763	6,865	30
31	Interdept.	3,908,418	0.32%	1,635	0.337%	28,180	29,815	31
32	Total	$ 1,211,806,151	100.00%	$ 511,000	100.00%	$ 8,361,000	$ 8,872,000	32

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Reliability Adjustment Reconciliation
Summary of Costs in the Reliability Adjustment
Month

Line No.		Amount	Line No.
1	Capacity Purchases	$ 510,000	1
2	MISO Transmission Costs - demand allocated	1,000	2
3	**Total Demand Allocated Costs**	**$ 511,000**	3
4	Purchases through MISO	$ 1,950,000	4
5	Purchased Power other than MISO	6,085,000	5
6	MISO Non-FAC Charges	405,000	6
7	MISO Transmission Costs - energy allocated	68,000	7
8	LESS ; Off System Sales Net Revenue	147,000	8
9	**Total Energy Allocated Costs**	**$ 8,361,000**	9
10	**Total Reliability Adjustment Costs**	**$ 8,872,000**	10

NORTHERN INDIANA PUBLIC SERVICE COMPANY
MISO Charges Included in Reliability Adjustment by Charge Type
Month

Line No.	Charge Type			Line No.
1	Day Ahead Market Administration Amount	$	250,000	1
2	Day Ahead Financial Bilateral Transaction Congestion Amount		-	2
3	Day Ahead Financial Bilateral Transaction Loss Amount		-	3
4	Day Ahead Non-Asset Energy Amount		(600,000)	4
5	Day Ahead Revenue Sufficiency Guarantee Distribution Amount		100,000	5
6	Day Ahead Virtual Energy Amount		-	6
7	Day Ahead Schedule 24 Allocation		50,000	7
8	**Day Ahead Subtotal**	$	(200,000)	8
9	Financial Transmission Rights Market Administration Amount		23,000	9
10	**Financial Transmission Rights Subtotal**	$	23,000	10
11	Real-Time Market Administration Fee Amount	$	25,000	11
12	Real Time Financial Bilateral Transaction Congestion Amount		-	12
13	Real Time Financial Bilateral Transaction Loss Amount		-	13
14	Real Time Congestion Rebate on Carve-Out Grandfathered Agrmnts		-	14
15	Real Time Loss Rebate on Carve-Out Grandfathered Agrmnts		-	15
16	Real Time Miscellaneous Amount		30,000	16
17	Real Time Non-Asset Energy Amount		(500,000)	17
18	Real Time Net Inadvertent Distribution Amount		(1,000)	18
19	Real Time Price Volatility Make Whole		(25,000)	19
20	Real Time Revenue Neutrality Uplift Amount		1,000,000	20
21	Real Time Revenue Sufficiency Guarantee First Pass Distribution Amount		200,000	21
22	Real Time Virtual Energy Amount		-	22
23	Real Time Revenue Sufficiency Guarantee First Pass/Second Pass Distribution Amount Carve Out		-	23
24	Real Time Non-Asset Energy Fin Sched Carve Out		-	24
25	Market Administration Virtual and Fin-Phys Carve Out		-	25
26	Real Time Schedule 24 Allocation		3,000	26
27	Real Time Schedule 24 Distribution		(150,000)	27
28	Real Time Revenue Neutrality Uplift Amount - Second Pass RSG Carve Out		-	28
29	**Real Time Subtotal**	$	582,000	29
30	**MISO Day 2 Charges Recovered in Reliability Adjustment**	**$**	**405,000**	30
31	Schedule 10 - ISO Cost Recovery Adder	$	200,000	31
32	Schedule 10 - FERC		50,000	32
33	Schedule 11 - Transmission Adjustment		3,000	33
34	**Transmission Charges Subtotal**	$	253,000	34
35	Schedule 1 - Scheduling, System Control and Dispatch Service	$	(25,000)	35
36	Schedule 2 - Reactive Supply And Voltage Control/Generation Sources Service		(40,000)	36
37	Schedule 7 - Long-Term/Short-Term Firm Point-to-Point Transmission		(80,000)	37
38	Schedule 8 - Non-Firm Point-to-Point Transmission Service		(40,000)	38
39	Schedule 11 - Transmission Adjustment		-	39
40	**Transmission Revenues Subtotal**	$	(185,000)	40
41	**MISO Transmission Charges Recovered in Reliability Adjustment**	**$**	**68,000**	41
42	**MISO Charges Recovered in Reliability Adjustment - Energy Allocated**	**$**	**473,000**	42
43	Schedule 26 - Network Upgrade Charge from Transmission Expansion		1,000	43
44	**MISO Charges Recovered in Reliability Adjustment - Demand Allocated**	**$**	**1,000**	44

Petitioner's Exhibit MEH-1

NORTHERN INDIANA PUBLIC SERVICE COMPANY

IURC CAUSE NO. 43526

VERIFIED DIRECT TESTIMONY

OF

MITCHELL E. HERSHBERGER
CONTROLLER

SPONSORING PETITIONER'S EXHIBITS MEH-2 THROUGH MEH-8

VERIFIED DIRECT TESTIMONY OF MITCHELL E. HERSHBERGER

Q1. Please state your name and business address.

A1. My name is Mitchell E. Hershberger and my business address is 801 East 86th Avenue, Merrillville, Indiana 46410.

Q2. By whom are you employed and in what capacity?

A2. I am employed by NiSource Inc. ("NiSource") and my current position is that of Controller for Northern Indiana Public Service Company ("NIPSCO" or the "Company").

Q3. Please briefly describe your professional experience.

A3. I have been employed by NiSource or NIPSCO since March of 1987 in a variety of accounting and finance positions. Prior to becoming Controller for NIPSCO, I held the position of Unregulated Segment Controller, where I was the controller over all of the unregulated operating subsidiaries within NiSource. In that position, I was responsible for finance and accounting functions for all the NiSource non-regulated operating companies, and responsible for administering payroll and accounts payable for NiSource and its subsidiaries.

Q4. What are your responsibilities as NIPSCO Controller?

A4. As Controller, my principal responsibilities include providing accurate and timely completion of Generally Accepted Accounting Principles ("GAAP") financial statements and managerial reports on a monthly and quarterly basis.

Q5. What is your educational background?

A5. I am a graduate of Indiana University and hold Bachelor of Science and Master of Business Administration degrees.

Q6. What are your professional credentials?

A6. I am a Certified Public Accountant ("CPA"), Certified Internal Auditor, and member of American Institute of Certified Public Accountants, the Indiana CPA Society, and the Institute of Internal Auditors.

Q7. What is the purpose of this testimony?

A7. I will address eight topics in my direct testimony. First, I provide the Indiana Utility Regulatory Commission ("Commission") with an overview of NIPSCO's accounting practices including its audits, controls, and processes. Second, I sponsor Petitioner's per book financial statements for calendar year 2007. Third, I explain how common costs are allocated between NIPSCO's gas and electric businesses. Fourth, I address various aspects of the relationship between NIPSCO and NiSource Corporate Services Company ("NCS"). As part of that discussion, I detail the options available to NIPSCO for the review and challenge of allocated costs. That section of my testimony also supports four adjustments to test year operating expenses to adjust the amount of NCS charges applicable to NIPSCO's electric operations during the test year. I also explain the process used to review the charges received by NCS and the enhanced process to be employed by NIPSCO prospectively to monitor and verify the accuracy of its NCS allocations. Fifth, I sponsor the calculation of one adjustment to rate base to eliminate the impact of an error made in performing certain plant retirements. Sixth, I sponsor the calculation of a second adjustment to reflect the reclassification of plant between accounts as part of the implementation of the Federal Energy Regulatory Commission ("FERC") Seven Factor Test. Seventh, I discuss a one-time unbilled revenue correction. And eighth, I briefly address the type of depreciation rate approval sought in this proceeding.

I. NIPSCO'S ACCOUNTING PRACTICES

Q8. Please provide an overview of NIPSCO's Accounting department.

A8. The NIPSCO Accounting department performs internal accounting functions for all of the Indiana regulated utilities, including NIPSCO's gas and electric operations. Two of the primary functions provided for NIPSCO are general accounting and asset accounting. First, in performing its general accounting duties, the department maintains the accounting books and records for NIPSCO's electric and gas functions. NIPSCO Accounting also prepares financial statements and reports for internal use and external distribution. Second, in fulfilling its asset accounting duties, the department manages the books and records related to NIPSCO's fixed assets.

Q9. What is the basis for NIPSCO's accounting and financial reporting?

A9. NIPSCO's accounting and financial reporting policies and practices are in conformance with GAAP. GAAP is the recognized authoritative set of accounting rules, procedures and conventions used by non-governmental entities as a basis for their external financial statements and reporting. The Financial Accounting Standards Board ("FASB") is recognized by the accounting profession as the primary body for establishing the standards embodied in GAAP.

Q10. Are there other accounting standards and rules NIPSCO must follow?

A10. Yes. As a company whose securities are traded in interstate commerce, NiSource and its subsidiaries are subject to the accounting principles established by the Securities and Exchange Commission ("SEC"). While the SEC recognizes FASB as the primary authority for the establishment of GAAP accounting standards, it also promulgates its own rules that govern financial statements to be included in SEC filings, and interprets GAAP as part of its review of those filings. The SEC's rulings and interpretations of GAAP in the context of the numerous and often complex transactions involving publicly held companies are considered to be of equal authority as FASB pronouncements within the accounting profession. Financial statements filed with the SEC must be accompanied by the opinion of an independent auditor that the statements have been prepared in accordance with GAAP.

Q11. Is GAAP the same as the FERC Uniform System of Accounts?

A11. No. The Uniform System of Accounts ("USoA") are accounting standards prescribed by the FERC for most major utilities including NIPSCO. The Commission adopted the USoA as the standard for Indiana utilities in its administrative rules at 170 IAC § 4-2-1.1. While there are some differences between GAAP and the USoA, they are generally consistent with one another and none of the differences are applicable to the subjects included in my testimony.

Q12. Are NIPSCO's books and records kept in accordance with the USoA?

A12. Yes, they are.

Q13. Are NIPSCO's financial statements in conformity with the requirements of the Sarbanes-Oxley Act?

A13. Yes. NIPSCO has implemented specific internal controls related to the financial reporting process in order to satisfy the requirements of the Sarbanes-Oxley Act. These controls and overall compliance with the Sarbanes-Oxley Act are regularly monitored by the NiSource Sarbanes-Oxley Compliance department.

Q14. How are audits of NIPSCO's financial books and records performed and by whom?

A14. Formal audits of the financial books and records of NiSource and all of its affiliates, including NIPSCO, are performed annually by Deloitte and Touche USA, LLP. In addition, the internal audit department of NiSource supplements the audits performed by Deloitte & Touche on some transactional matters.

Q15. Please explain the controls and procedures employed by NIPSCO in preparing its financial reports.

A15. NIPSCO generates internal financial reports from its general ledger software system. This system is the primary source for NIPSCO's accounting books and records, and this system interfaces with the NiSource accounting system which is used to generate its consolidated financial reports. NiSource's other companies also interface with NiSource's consolidated accounting system for segment reporting to ensure consistency in the way financial information is recorded and maintained. NiSource also employs a variety of internal controls as part of the preparation of NiSource's consolidated financial reports.

Significant issues and events are regularly communicated through meetings between NIPSCO executive and financial leadership groups. The Chief Executive Officer holds regular staff meetings to discuss both current and longer term business issues for all Indiana regulated companies, including NIPSCO. Leadership from each operating, support, and administrative area, as well as business partners from corporate support staff attend these meetings.

In addition, in compliance with the Sarbanes-Oxley Act, NiSource must attest to the adequacy and effectiveness of its internal controls. During 2004, NiSource implemented a plan of self-assessment of its internal control structure which includes "self-testing" of individual internal controls. As a part of this process, NIPSCO Accounting tests on a periodic basis the existence, adequacy, and effectiveness of the internal controls surrounding disclosure, including testing the specific controls outlined in my testimony. The results of this self-testing have been to provide evidence of the adequacy and effectiveness of these controls.

II. <u>NIPSCO'S FINANCIAL STATEMENTS</u>

Q16. Please identify <u>Petitioner's Exhibit MEH-2</u> and <u>Petitioner's Exhibit MEH-3</u> attached to your testimony.

A16. <u>Petitioner's Exhibit MEH-2</u> is the per books Income Statement for NIPSCO's total company (gas and electric) operations for the twelve months ended December 31, 2007, the test year in this proceeding and for the twelve months ended December 31, 2006. Petitioner's Exhibit MEH-3 is the per books Balance Sheet for NIPSCO as of December 31, 2007 and December 31, 2006. Petitioner's Exhibit MEH-3 was prepared by using the 2007 audited GAAP Balance Sheet and adjusting it to remove the Asset Retirement Obligation balances, which are GAAP-only entries, and by moving the cost of removal balance back into the accumulated depreciation account in accordance with the USoA. Petitioner's Exhibit MEH-3 has been formatted in a manner consistent with Balance Sheets previously submitted to the Commission in support of NIPSCO financing petitions.

Q17. Was the information contained in Petitioner's Exhibit MEH-2 and Petitioner's Exhibit MEH-3 compiled from the accounting records kept and maintained by NIPSCO in the ordinary course of business?

A17. Yes, they were.

Q18. Does Petitioner's Exhibit MEH-2 form the starting point for the determination of NIPSCO's revenue requirement in this proceeding?

A18. Yes.

III. ALLOCATION OF NIPSCO COMMON COSTS

Q19. What are common costs and how are they allocated between NIPSCO's gas and electric operations?

A19. Common costs represent costs that must be incurred by both the electric and gas functions in performing their regular business activities, but which can also be shared or pooled between both functions. A typical example of a common cost is the cost to bill customers. Both gas customers and electric customers must be billed, but combination utilities like NIPSCO can pool billing activities in a single common department to avoid duplicating costs and resources. Because common costs represent pooled costs of both the gas and electric functions, these costs must be allocated between gas and electric using common allocation ratios that measure the cost causation relationship between the gas and electric functions for these costs.

Q20. How were NIPSCO's common allocation ratios derived?

A20. In 1968, Arthur Andersen conducted NIPSCO's original common allocation study. From that study, NIPSCO implemented the original common allocation ratios recommended by Arthur Andersen. NIPSCO used those original ratios for almost forty years to allocate common costs between electric and gas. During 2006, NIPSCO reviewed those original ratios and their application to specific common costs to determine whether they continued to accurately represent the cost causative relationship for those charges.

Q21. What was the result of that review?

A21. Based on that review, NIPSCO determined that the majority of the original ratios and their application still accurately represented the causative relationship for common charges at NIPSCO. As an example, NIPSCO continues to allocate employee-related common costs using its payroll Ratio D which allocates costs using the total payroll amounts of gas and electric employees.

NIPSCO also added new allocation ratios where appropriate to accurately represent the cost causative relationship for certain common charges. For example, because NIPSCO now receives charges from NCS, new ratios were developed that replicate the allocations for electric and gas that NCS uses to allocate those costs to NIPSCO and other NiSource affiliates. By replicating these ratios and applying them to the specific charges received from NCS, NIPSCO has directly aligned its allocation methodology for these charges with the NCS methodology.

NIPSCO also replaced some original allocation ratios that no longer accurately represented the cost causative relationship for the applicable common charges. For example, NIPSCO replaced former Composite Ratio A with the new Ratio O&M. Composite Ratio A was a basic average of four components, including gross utility revenues, transmission and distribution expenses, the number of customers, and gross plant. Composite Ratio A's revenue component included the commodity costs for natural gas, generation fuel, and purchased power as part of revenues. Since Composite Ratio A was developed, utility revenues have been influenced by the current volatility in both the gas and coal markets. Further, the overall level of common activities is not directly influenced by the fluctuations in these markets but it was directly influencing Composite Ratio A. Composite Ratio A also measured only the transmission and distribution expenses without considering expenses for electric production or gas storage. These missing expense segments represent significant sources of common activities such as operational and fixed asset accounting, human resources, information technology, and many other common activities supporting electric production and gas storage.

Based on the above-identified considerations, NIPSCO determined that the continued use of Composite Ratio A was no longer appropriate as a proxy for the cost causative relationship between NIPSCO's gas and electric functions. As a result, NIPSCO replaced Composite Ratio A with the new Ratio O&M which replicates the default allocation methodology used by NCS to allocate costs among its affiliates. In contrast to Composite Ratio A, the new Ratio O&M measures the full relationship of operations and maintenance expenses, depreciation and amortization, and taxes other than income. Ratio O&M not only allows NIPSCO to closely align its methodology with NCS, but it also accurately reflects the fact that these cost areas drive the overall level of common activities at NIPSCO.

Q22. Please explain how common cost allocation ratios are applied by NIPSCO.

A22. Common cost allocation ratios are mathematically recalculated twice each year to reflect the most current information. The most current calculation of each ratio is applied to common costs when they are booked to allocate the cost between gas and electric. Petitioner's Exhibit MEH-4 is a schedule of NIPSCO's common allocation ratios in effect from September 2007 through February 2008. These are the allocation ratios that were in effect at the close of the test year in this proceeding.

Q23. Are the allocation ratios shown on Petitioner's Exhibit MEH-4 representative of the way common costs are incurred by NIPSCO?

A23. Yes, they are.

IV. NCS CHARGES

Q24. What is NCS and what is its relationship to NIPSCO?

A24. NCS is an affiliate of NIPSCO within NiSource. NCS provides a variety of services itself and serves as a clearinghouse for outside vendors providing services to the various NiSource operating companies. In her direct testimony, NIPSCO Witness Susanne M. Taylor provides an overview of the various functions provided by NCS. NCS bills NIPSCO monthly for charges provided directly by NCS or provided indirectly by third-party vendors.

Q25. Please explain how NCS charges are booked by NIPSCO.

A25. NIPSCO receives a monthly electronic billing statement from NCS that includes detailed line item charges. Each line item charge includes the coding structure that NCS uses to distribute those costs to affiliates like NIPSCO. These codes include a description of the charge, the NiSource internal department responsible for the charge, the Job Order and Sub codes which categorize the nature of the service provided, the allocation basis or direct charge code used to distribute the cost to NIPSCO, and other descriptive information.

During the test year, NIPSCO mapped each line item charge to a specific FERC account using the Company's pre-determined mapping process. NIPSCO based its mapping on the NiSource department responsible for the charge as well as the Job Order and Sub fields which separate the different activities of those departments. Because NCS consistently codes similar charges using the same Job Order and Sub combination, NIPSCO can rely on these codes and the department charging that combination of codes to accurately map these charges to the Company's electric, gas, and common accounts. As NCS creates new Job Order and Sub combinations for specific services or projects provided to NIPSCO, the Company's accounting staff manually updates its account mapping to incorporate these new charge code combinations going forward.

Beginning January 1, 2008, NIPSCO changed its mapping process because NCS is now distributing costs to its affiliates by FERC account. This change reflects NCS's implementation of the FERC Rule 684 issued October 19, 2006 requiring service companies like NCS to utilize the full FERC chart of accounts in detailing services provided to its affiliates. NIPSCO still retains responsibility for allocating common charges between electric and gas, but the determination of the proper account is now made by NCS.

Q26. What options does NIPSCO have for the review and challenge of costs once they have been billed to NIPSCO by NCS?

A26. Under Article 2 of the Service Agreement between NIPSCO and NCS, NCS renders a monthly report to NIPSCO that reflects all information necessary to identify the costs charged and services rendered for the previous month. NIPSCO has ten days from receipt to identify any questions or concerns with the monthly reported charges. While the Service Agreement does not specify a precise procedure for addressing questions or concerns, such issues can be worked through in conferences between NIPSCO and NCS.

Q27. Does NCS bill NIPSCO separately for its gas and electric operations?

A27. No. NCS bills costs to NIPSCO on a total company basis, and NIPSCO allocates the costs to the appropriate portion of its operations.

Q28. Are NCS charges split between gas and electric operations in the same way as common costs are allocated between gas and electric operation?

A28. Not completely. The common costs described earlier in my testimony are expenses billed directly to NIPSCO as an operating company or generated internally by common departments at NIPSCO. Those NIPSCO common costs are allocated between gas and electric using the allocation ratios described above. These allocation ratios include some that have been developed specifically for allocating charges received from NCS between electric and gas. These additional ratios replicate the allocation methodology for electric and gas that NCS used to allocate these costs to NIPSCO.

Q29. Why are the allocations made differently?

A29. In contrast to common costs, NCS charges are expenses charged to NCS and then billed to NIPSCO. Many of the NCS charges billed to NIPSCO have been allocated among multiple operating companies as described by Ms. Taylor. NIPSCO apportions those expenses between gas and electric following the same allocation methodologies used within NCS so that the methodology is consistent from beginning to end.

Q30. Have you reviewed the adjustments to test year NCS charges recommended by Ms. Taylor?

A30. Yes I have, and I agree that those adjustments are appropriate.

Q31. Have you calculated the impact to the electric function from Ms. Taylor's recommended adjustments to test year NCS charges?

A31. Yes I have. Petitioner's Exhibit MEH-5 presents the cumulative impact to NIPSCO's electric accounts from Ms. Taylor's proposed adjustments. Column A shows the FERC accounts where corporate service fees were booked by NIPSCO in the test year. A portion of the total adjustment proposed by Ms. Taylor was not identified by a specific NIPSCO account. This portion of her adjustment has been categorized in Column A as "Unidentified." Column B separates Ms. Taylor's total downward adjustment of $2,782,395 into the specific accounts where the underlying charges were booked during the test year. Column C presents the allocation of Ms. Taylor's total adjustment to the electric function based on the underlying allocator that NIPSCO used for each supporting charge during the test year.

Ms. Taylor's adjustment includes a pro forma increase for the IBM Fixed Contract of $1,729,890. In Petitioner's Exhibit MEH-5, this pro forma increase is included as part of the $2,265,602 balance in Column B classified as "Unidentified." The portion representing the IBM Fixed Contract pro forma increase has been allocated to the electric function using a composite ratio based on the allocators used at NCS to pass these types of charges to NIPSCO during the test year. The remaining balance of the "Unidentified" balance in Column B was allocated to electric using NIPSCO's Ratio O&M which is a replication of NCS's default allocation Basis 20.

The total impact to NIPSCO's electric function from Ms. Taylor's proposed adjustment is a decrease of $1,117,550 of which $97,580 represents an increase to electric capital and $1,215,130 represents a decrease to electric expense.

Q32. Did NIPSCO undertake an additional review of costs allocated by NCS to NIPSCO?

A32. Yes. As detailed in the testimony of Ms. Taylor, NCS performed a review of costs allocated to NIPSCO to identify and remove one time expenses and to adjust test year expenses at the NCS level to account for ongoing operational expense levels. NIPSCO's review focused on the proper internal allocation of costs between its gas and electric operations, and on costs associated with invoices from third-party vendors.

Q33. Why did NIPSCO's review focus on those areas?

A33. As Ms. Taylor explains in her testimony, NCS does not distinguish between NIPSCO's gas and electric operations when costs are allocated. NIPSCO is the only NiSource operating company with both gas and electric operations, and the responsibility for dividing those expenses lies with NIPSCO. The Company's review focused on third-party vendors because of NIPSCO's familiarity with the various Company-specific gas and electric projects and because of the effectiveness of internal controls for the direct billing of costs by NCS employees.

Q34. Please explain NIPSCO's review of costs from third party vendors allocated from NCS during the test year.

A34. During the course of preparing the information required for this case, NISPCO conducted a comprehensive study of test year vendor costs allocated to the Company from NCS.

The Company undertook that review to identify the nature and magnitude of third-party costs allocated to NIPSCO to ensure that the charges had been properly submitted to NIPSCO for payment, and to categorize properly allocated costs between NIPSCO's gas and electric operations. To conduct that review, NIPSCO requested and received underlying vendor invoices from NCS. Because of the volume of individual transactions involved, it was not feasible to individually review all of the invoices. However, by sorting the invoices by magnitude, it was determined that a review of 3,000 individual invoices would capture more than 99% of the vendor costs allocated during the test year.

Q35. How were costs allocated between NIPSCO's gas and electric operations?

A35. NIPSCO identified vendor costs that properly belonged to only gas, only electric, or common (both gas and electric) categories. The Company removed costs attributable to NIPSCO's gas operations from the test year data. The Company allocated costs shared between gas and electric operations based upon the same methodology used at the NCS level where possible. Ms. Taylor's testimony explains the Bases for Allocation followed at the NCS level. For example, costs allocated to NIPSCO based on number of customers (Basis 10) were allocated between gas and electric based on the number of gas versus the number of electric customers.

Q36. What was the result of the review of allocated costs?

A36. As a result of the comprehensive review, NIPSCO adjusted test year NCS expenses by a total of $1,103,641. I will describe this adjustment below. <u>Petitioner's Exhibit MEH-6</u> details the four parts to this adjustment.

Q37. Please describe the adjustments shown on <u>Petitioner's Exhibit MEH-6</u>.

A37. Adjustment A reduces test year expenses by $704,715 to reflect removal of NCS expenses solely attributable to NIPSCO gas operations. Because these costs are unrelated to electric operations, NIPSCO removed them.

Adjustment B increases test year expenses by $563,795 to reflect the reassignment of test year expenses from a common allocation to both gas and electric operations to an allocation only to NIPSCO's electric operations. These expenses were incorrectly booked by NIPSCO to both its gas and electric operations, but a review of the underlying invoices revealed that the expenses were attributable only to NIPSCO electric.

Adjustment C reduces test year expenses by $978,561 to eliminate costs associated with the unregulated activities of NIPSCO inadvertently booked to NIPSCO's electric operations.

Finally, Adjustment D increases test year expenses by $15,840 to adjust the remaining vendor invoice charges that were not individually verified as part of NIPSCO's internal review. Adjustment D applies the total percentage increase from the vendor invoice review to the remaining balance of unverified invoices. The total increase to electric expense from the invoice review of $279,023 was divided over the total balance of invoices reviewed of $10,106,177 which yielded a total increase of 2.76%. The percentage increase of 2.76% was then multiplied against the remaining unverified invoice balance of $573,733 which yielded the increase to electric expense of $15,840.

The increase of $279,023 from the verified vendor invoices has already been included as a component of Adjustments A and B.

Q38. Please explain the process within NIPSCO for the review and challenge of costs allocated from NCS.

A38. As a result of the Company's comprehensive review described above, NIPSCO implemented an enhanced protocol. That protocol includes the following steps:

1. NIPSCO will compare each monthly invoice from NCS with historical monthly allocations and with budget projections by category to identify any significant deviations from experience and expectations.

2. NIPSCO will request a formal inquiry of underlying invoices each month on a random basis to verify the accuracy of the allocation made by NCS. To perform that check, NIPSCO will seek a listing of allocated costs by vendor and by direct billing employee.

3. Whenever a formalized inquiry or review of underlying invoices identifies costs that should not have been allocated to NIPSCO, NIPSCO will take appropriate steps to ensure that the charges are reversed and will verify that those costs are not re-allocated to NIPSCO in a subsequent invoice.

The process of reviewing and challenging allocations from NCS is conducted by members of my staff, and we are documenting in a report all actions taken.

V. <u>RATE BASE ADJUSTMENT</u>

Q39. Are you proposing an adjustment to NIPSCO's test year utility plant in service?

A39. Yes, I am. I am sponsoring an adjustment to increase the original cost of utility plant in service by $106,312,580 and to increase the accumulated depreciation reserve by $114,111,518. The net impact is a decrease to net original cost rate base of $7,798,938.

Q40. Please explain why these adjustments are necessary.

A40. These adjustments are necessary to correct an error in NIPSCO's 2007 year end gross plant in service and accumulated depreciation reserve balances. In 2004, NIPSCO replaced the asset accounting software package previously used to account for its plant and depreciation balances. NIPSCO's prior asset accounting software utilized retirement estimate credits to estimate the retirements associated with new assets being transferred from Account 107 *Construction Work in Progress* into Account 106 *In-Service Non-Classified.* These retirement estimates were utilized by the former software package to avoid overstating the gross plant balance and the associated depreciation expense by estimating the impact of the eventual future retirement. The actual retirement was performed later when the asset was unitized and transferred from Account 106 to Account 101 *In-Service Classified.* At that same time, NIPSCO's former software system automatically reversed the retirement estimate when retiring the appropriate asset.

When NIPSCO changed its asset accounting software in 2004, these placeholder estimates were properly converted into the new software package because they represented work orders that were in Account 106 at that time. NIPSCO's new software package does not use retirement estimates because it performs an actual retirement at the time that the asset is transferred out of Account 107 into Account 106. No retirement estimate is created or needed. As a result, the new system had no automatic process for removing these retirement estimates as the work orders were later classified into Account 101 and the actual retirements were performed. As a result, these retirement estimates began to understate the gross plant balance as the work orders were processed from the date of conversion in 2004 through the discovery of the problem in 2008. In addition, depreciation expense was impacted over those periods due to the understated gross plant balances.

NIPSCO has now retired these estimates from its current asset management software and corrected its books and records accordingly. The adjustments I propose correct the resulting understatement of plant and the accumulated depreciation reserve related to these lingering retirement estimates as of the close of the test year.

Q41. Have you prepared an exhibit that documents the adjustments you propose?

A41. Yes. Petitioner's Exhibit MEH-7 contains the calculation of the adjustment to utility plant in service described above. Lines 1 through 3 of Petitioner's Exhibit MEH-7 show the increase to Account 101 *In-Service Classified* from the reversal of the retirement estimates. Column D shows the unallocated impact to gross plant of $106,788,621 of which $105,132,251 represents the increase to electric plant and $1,656,369 represents the increase to common plant. Column E shows the percentage of the gross amount that was allocated to electric. NIPSCO allocates common plant balances using the new Ratio O&M previously identified (except for a portion of customer-related software allocated using Ratio G-2 which is inapplicable to this adjustment). Column F shows the allocated increase to gross electric end of test year plant of $106,312,580 of which $105,132,251 represents the increase from electric plant and $1,180,329 represents the allocated increase from common plant.

Lines 4 through 6 of <u>Petitioner's Exhibit MEH-7</u> show the increase to Account 108 *Accumulated Reserve* from the reversal of the retirement estimates. Column D shows the unallocated increase to the reserve of $106,788,621 of which $105,132,251 represents the increase to the electric reserve and $1,656,369 represents the increase to the common reserve. Column E shows the percentage of the reserve amount that was allocated to electric. NIPSCO allocates common accumulated reserve balances using Ratio O&M except for a portion of customer-related software allocated using Ratio G-2. No customer-related software assets were impacted by this adjustment. Column F shows the allocated increase to the electric test year accumulated reserve of $106,312,580 of which $105,132,251 represents the increase from the electric reserve and $1,180,329 represents the allocated increase from the common reserve.

Lines 6 through 9 of <u>Petitioner's Exhibit MEH-7</u> show the increase to Account 108 *Accumulated Reserve* from the cumulative depreciation catch-up from 2004 through 2007 that would have been taken in those periods if gross plant were not understated. Column D shows the unallocated increase to the reserve of $7,861,637 of which $7,643,476 represents the increase to the electric reserve and $218,162 represents the increase to the common reserve. Column E shows the percentage of the reserve amount that was allocated to electric. NIPSCO allocates common accumulated reserve balances using Ratio O&M except for a portion of customer-related software allocated using Ratio G-2. No customer-related software assets were impacted by this adjustment. Column F shows the allocated increase to the electric test year accumulated reserve of $7,798,938 of which $7,643,476 represents the increase from the electric reserve and $155,462 represents the allocated increase from the common reserve. The net impact to electric original cost rate base from these adjustments is a decrease of $7,798,938.

VI. SEVEN FACTOR TEST ADJUSTMENT

Q42. Are you proposing any other adjustments to NIPSCO's test year utility plant in service?

A42. Yes, I am. I am sponsoring a reclassification adjustment related to NIPSCO's implementation of the FERC Seven Factor Test and other account reclassifications totaling $165,365,980 along with $67,042,673 in associated reserve. The net impact to test year electric utility plant in service from these reclassifications is $0.00, as these are simply transfers within electric utility accounts.

Q43. Please describe the nature of these adjustments.

A43. As discussed by NIPSCO Witness Timothy A. Dehring, NIPSCO recently implemented the FERC Seven Factor Test that changed NIPSCO's definition of its transmission system. Based on this study, NIPSCO reclassified 34kV assets from the transmission accounts to the distribution accounts. As shown in Petitioner's Exhibit MEH-8, NIPSCO transferred $108,644,289 of equipment from transmission accounts to distribution accounts, along with $43,455,700 of accumulated reserve. NIPSCO also reclassified $14,599,077 of specific substation-related assets greater than 34kV from distribution accounts to transmission accounts, along with $5,463,929 of associated reserve.

As part of reviewing the books and records to implement the Seven Factor Test, NIPSCO also identified other equipment transfers that were needed to correct the original account classification of the equipment. These transfers are separated into six categories shown on Petitioner's Exhibit MEH-8: (1) from Transmission to Distribution, (2) from Distribution to Transmission, (3) from Transmission to Transmission, (4) from Distribution to Distribution, (5) from Transmission to Generation, and (6) from Generation to Transmission and Distribution.

NIPSCO identified $1,686,917 in transfers from transmission to distribution accounts along with $239,888 in associated reserve. NIPSCO also identified $908,983 in transfers from distribution to transmission accounts along with $367,470 in associated reserve. Another $794,118 in equipment was reclassified within transmission accounts along with $132,814 in associated reserve, and another $320,096 in equipment was reclassified within distribution accounts along with $128,418 in associated reserve. NIPSCO also reclassified $38,183,499 from transmission to generation accounts along with $17,233,109 in associated reserve. NIPSCO also reclassified $229,002 from generation to transmission and distribution accounts along with $21,345 in associated reserve.

VII. UNBILLED REVENUE CORRECTION.

Q44. Please discuss the calculation of the unbilled correcting entry in Adjustment REV-8 on Petitioner's Exhibit LEM-5.

A44. As NIPSCO Witness Linda Miller states, Adjustment REV-7 on Petitioner's Exhibit LEM-2 is the adjustment required to increase (credit) operating revenues and deferred fuel revenues in the amount of $10,955,615 for a one-time unbilled revenue correction recorded in 2007, but related to prior periods. This entry was made as a result of a change in the methodology used to calculate unbilled revenues and receivables and this change resulted in a one-time adjusting entry to the income statement and balance sheet in the test year, reducing revenues. Unbilled revenues and receivables have no impact on customer bills. Unbilled amounts are calculated based on an estimate of the amount of volumes that have not yet been billed at the end of the period. At December 31, 2007, it was determined that the estimate of unbilled volumes was higher than it should have been, and that therefore, the unbilled receivable balance was overstated. The adjusting entry to correct for this was a credit (reduction) to receivables and a debit (reduction) to revenues. The analysis of the unbilled volumes revealed a need to revise the methodology being used and also revealed that the previous method had inappropriately affected 2005, 2006 and 2007 revenues. Therefore, the correcting entry, although made in 2007, affected prior periods as well. Pro forma Adjustment REV-8 adds back the amount of revenue reduction that relates to periods prior to test year 2007. The amounts related to prior periods, but recorded in the test period, are adjusted out in order to eliminate the impact to the test year operating income. If this adjustment is not included, test year operating revenues would be understated.

The amount of the correcting entry was calculated by revising the unbilled volume estimate and applying the applicable revenue per unit of volume. The correcting entry was the difference between this revised calculation and the amount previously recorded on the books. The amount of the correcting entry applicable to prior periods was calculated by analyzing the unbilled volumes, revenues and receivables recorded at year-end 2005 and 2006 and comparing them to the revised estimates.

VIII. APPROVAL OF ACCOUNT-BY-ACCOUNT DEPRECIATION RATES

Q45. As Controller, are you responsible for maintaining depreciation records for NIPSCO's plant?

A45. Yes. I am responsible for that function.

Q46. Is NIPSCO seeking approval of depreciation rates on an account-by-account basis?

A46. Yes. The depreciation study sponsored by NIPSCO Witness John J. Spanos proposes specific depreciation rates by FERC account. I have confirmed that NIPSCO's accounting software is compatible with rates established on an account-by-account basis, and NIPSCO is requesting that the Commission approve the use of the rates proposed in Mr. Spanos' testimony on that basis.

Q47. How is the Company proposing to depreciate the Sugar Creek Generating Plant ("Sugar Creek")?

A47. NIPSCO is proposing to apply the depreciation rates for Sugar Creek identified in Mr. Spanos' testimony to the acquisition price of the plant when the plant is approved for inclusion in rate base as part of the Step Two rate adjustment proposed by NIPSCO.

Q48. Does this conclude your prepared direct testimony?

A48. Yes, it does.

VERIFICATION

I, Mitchell E. Hershberger, Controller of Northern Indiana Public Service Company, affirm under penalties of perjury that the foregoing representations are true and correct to the best of my knowledge, information and belief.

Mitchell E. Hershberger

Date: August 29, 2008

INDS01 CEARLS 1056631

NORTHERN INDIANA PUBLIC SERVICE COMPANY

Comparison of NIPSCO Income Statement (unaudited)
Twelve Months Ended December 31, 2007 and December 31, 2006
(Dollars in Thousands)

	December 31, 2007	December 31, 2006
Operating Revenues:		
Gas	$1,006,858	$908,745
Electric	$1,359,523	$1,300,844
	$2,366,381	$2,209,589
Cost of Sales:		
Gas Costs	$739,554	$658,283
Fuel	$316,229	$282,750
Purchased Power	$233,947	$197,437
	$1,289,730	$1,138,470
Net Revenue	$1,076,651	$1,071,119
Operating Expenses		
Operations	$310,844	$297,965
Maintenance	$112,895	$92,885
Total O & M	$423,739	$390,850
Depreciation & Amortization	$282,470	$276,353
Taxes Other Than Income	$89,676	$85,393
Total Operating Expenses	$795,885	$752,596
Operating Income	$280,766	$318,523
Other Income	$3,546	$2,930
Interest	$52,176	$53,667
Income before Income Taxes	$232,136	$267,786
Income Taxes	$92,230	$109,863
Gain / (Loss) from change in accounting		$3
Net Income	$139,906	$157,926

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Balance Sheet (unaudited)
(Dollars in Thousands)

	December 31, 2007	December 31, 2006
ASSETS		
Utility Plant, at original cost		
Electric	$5,190,598	$5,030,704
Gas	1,605,937	1,591,551
Common	347,544	366,468
Total Utility Plant	7,144,079	6,988,723
Less: Accumulated provision for depreciation and amortization	(4,434,068)	(4,299,651)
Net utility plant	$2,710,011	$2,689,072
Other Property and Investments	$64,230	$59,449
Current Assets		
Cash	$2,967	$10,074
Restricted Cash	11,077	35,196
Accounts receivable (less reserve of $2.9)	11,652	10,415
Unbilled revenue	12,785	103,284
Underrecovered fuel costs	40,276	26,710
Materials and supplies, at average cost	52,555	53,642
Electric production fuel, at average cost	58,066	63,868
Natural gas in storage, at last-in, first-out cost	99,334	141,908
Price risk management assets	14,005	1,639
Current regulatory assets	58,262	59,912
Prepayments and other	31,089	25,486
Total Current Assets	$392,068	$532,134
Other Assets		
Noncurrent regulatory assets	$382,567	$537,813
Total intangible assets, less accumulated amortization	0	0
Deferred charges and other	42,829	7,032
Total Other Assets	$425,396	$544,845
Total Assets	$3,591,705	$3,825,500

Petitioner's Exhibit MEH-3
Northern Indiana Public Service Company
Cause No. 43526

NORTHERN INDIANA PUBLIC SERVICE COMPANY
Balance Sheet (unaudited)
(Dollars in Thousands

(in thousands)	December 31, 2007	December 31, 2006
CAPITALIZATION AND LIABILITIES		
Capitalization		
Common shareholder's equity	$1,394,077	$1,320,621
Preferred Stocks ---	0	0
Series without mandatory redemption provisions	0	0
Long-term debt, excluding amounts due within one year	768,219	792,115
Total capitalization	$2,162,296	$2,112,736
Current Liabilities		
Current portion of long-term debt	$24,000	$56,000
Short-term borrowings-Affiliated	72,007	116,558
Accounts payable	191,594	181,881
Accounts payable - Affiliated	32,210	22,196
Dividends declared on common and preferred stocks	0	0
Customer deposits	71,630	67,227
Taxes accrued	74,073	76,148
Interest accrued	2,477	3,423
Overrecovered fuel costs	0	0
Overrecovered gas costs	7,270	103,614
Accrued employment costs	27,848	21,414
Price risk management liabilities	13,346	36,574
Deferred income taxes	0	10,092
Current regulatory liabilities	36,735	794
Accrued liability for postretirement and postemployment benefits - current	78	73
Other accruals	31,014	33,340
Total Current Liabilities	$584,282	$729,334
Other Liabilities and Deferred Credits		
Deferred income taxes	$363,421	$391,853
Deferred investment tax credits	30,364	36,622
Customer Advances	21,227	19,473
Deferred Credits	1,401	2,937
Accrued liability for postretirement and postemployment benefits-noncurrent	330,752	452,510
Noncurrent regulatory liabilities	4,563	(4,108)
Asset Retirement Obligations	68,106	63,675
Other noncurrent liabilities	25,293	20,468
Total Other	$845,127	$983,430
Total Capitalization and Liabilities	$3,591,705	$3,825,500

Petitioner's Exhibit MEH-4
Northern Indiana Public Service Company
Cause No. 43526

NIPSCO Common Allocation Ratios - September 2007 through February 2008

	Column A	*Column B*	*Column C*	*Column D*
Line	**Ratio Name**	**Basis of Ratio Calculation**	**% to Electric**	**% to Gas**
1	D	Employee Payroll	69.15%	30.85%
2	E	Number of Customers in Combination Gas/Electric Districts	50.99%	49.01%
3	F	Number of Customers in the Angola District	78.15%	21.85%
4	G-2	Number of Total Customers	38.99%	61.01%
5	H	Net Plant and Working Capital	79.89%	20.11%
6	O&M	O&M Expenses, Depreciation & Amortization, and Non-Income Tax Expenses	71.26%	28.74%
7	PT	Plant Subject to Property Taxes	70.38%	29.62%
8	1	Gross Fixed Assets and Operating Expenses[1]	74.90%	25.10%
9	2	Gross Fixed Assets[1]	75.37%	24.63%
10	7	Gross Depreciable Property and Operating Expenses[1]	75.07%	24.93%
11	EMP	Number of Employees[1]	64.27%	35.73%
12	G-3	Number of Retail Customers[1]	41.24%	58.76%
13	PC	Number of Computing Devices[1]	65.21%	34.79%

[1] - Ratio is only used to allocate common charges received from NiSource Corporate Services

Petitioner's Exhibit MEH-5
Northern Indiana Public Service Company
Cause No. 43526

Allocation of Witness Susanne Taylor's Proposed Adjustment to NIPSCO Electric

	Column A	*Column B*	*Column C*	*Column D* = B * C	*Column E* = B * C	*Column F* = D + E
		Witness Susanne Taylor's Total Proposed Adjustment	**% to Electric Based on Original Allocation of Supporting Charges**	**Allocation of Proposed Adjustment to NIPSCO Electric**		
Line	**NIPSCO FERC**			**Expense**	**Capital**	**Total**
1	163.2.27.NCS012	$195,162	50.00%	-	$97,580	$97,580
2	182.32008E	$0	-	-	-	-
3	953.27.NCS012	$2,229	50.02%	$1,115	-	$1,115
4	C923.27.NCS012	($5,289,607)	51.09%	($2,702,450)	-	($2,702,450)
5	E923.27.NCS012	$3,604	99.99%	$3,604	-	$3,604
6	G923.27.NCS012	$40,615	0.00%	-	-	-
7	Unidentified	$2,265,602	65.44%	$1,482,601	-	$1,482,601
8	Grand Total	($2,782,395)		($1,215,130)	$97,580	($1,117,550)

Petitioner's Exhibit MEH-6
Northern Indiana Public Service Company
Cause No. 43526

Adjustment to Electric Test Year Corporate Service Charges

Line	Column A NIPSCO FERC	Column B Adjustment A to Electric Test Year Expense	Column C Adjustment B to Electric Test Year Expense	Column D Adjustment C to Electric Test Year Expense	Column E Adjustment D to Electric Test Year Expense	Column F =B+C+D+E Total Impact to Electric Test Year Expense
1	163.2.27.NCS012	-	-	-	-	-
2	182.32008E	-	-	-	-	-
3	953.27.NCS012	-	-	-	-	-
4	C923.27.NCS012	($704,715)	$563,795	($978,561)	-	($1,119,481)
5	E923.27.NCS012	-	-	-	-	-
6	G923.27.NCS012	-	-	-	-	-
7	Unidentified	-	-	-	$15,840	$15,840
8	Grand Total	($704,715)	$563,795	($978,561)	$15,840	**($1,103,641)**

Petitioner's Exhibit MEH-7
Northern Indiana Public Service Company
Cause No. 43526

Adjustment to Electric Test Year Rate Base

	Column A	*Column B*	*Column C*	*Column D*	*Column E*	*Column F = C * D*
Line	**Nature of Adjustment**	**Function**	**Account**	**Gross Amount**	**% Allocated to Electric**	**Amount to Electric**
1		Electric	101 In-Service Classified	$105,132,251	100%	$105,132,251
2	Reversal of Retirement Estimates	Common[1]	101 In-Service Classified	$1,656,369	71.26%	$1,180,329
3		Subtotal		$106,788,621		$106,312,580
4		Electric	108 Accumulated Reserve	($105,132,251)	100%	($105,132,251)
5	Reversal of Retirement Estimates	Common[1]	108 Accumulated Reserve	($1,656,369)	71.26%	($1,180,329)
6		Subtotal		($106,788,621)		($106,312,580)
7	Cumulative Depreciation Catch-up from	Electric	108 Accumulated Reserve	($7,643,476)	100%	($7,643,476)
8	2004 through 2007	Common[1]	108 Accumulated Reserve	($218,162)	71.26%	($155,462)
9		Subtotal		($7,861,637)		($7,798,938)
10	Net Impact to Electric Rate Base					($7,798,938)

[1] - NIPSCO allocates common plant and reserve on Ratio O&M except for a portion of customer-related software allocated on Ratio G-2.

Petitioner's Exhibit MEH-8
Northern Indiana Public Service Company
Cause No. 43526

Adjustment for Implementation of Seven Factor Study & Other Equipment Transfers

	Column A	*Column B*	*Column C*
Line	**Transfer**	**Gross Amount**	**Reserve Amount**
1	Seven Factor - From Transmission to Distribution	$108,644,289	$43,455,700
2	Seven Factor - From Distribution to Transmission	$14,599,077	$5,463,929
3	From Transmission to Distribution	$1,686,917	$239,888
4	From Distribution to Transmission	$908,983	$367,470
5	From Transmission to Transmission	$794,118	$132,814
6	From Distribution to Distribution	$320,096	$128,418
7	From Transmission to Generation	$38,183,499	$17,233,109
8	From Generation to Transmission and Distribution	$229,002	$21,345
9	Grand Total	$165,365,980	$67,042,673